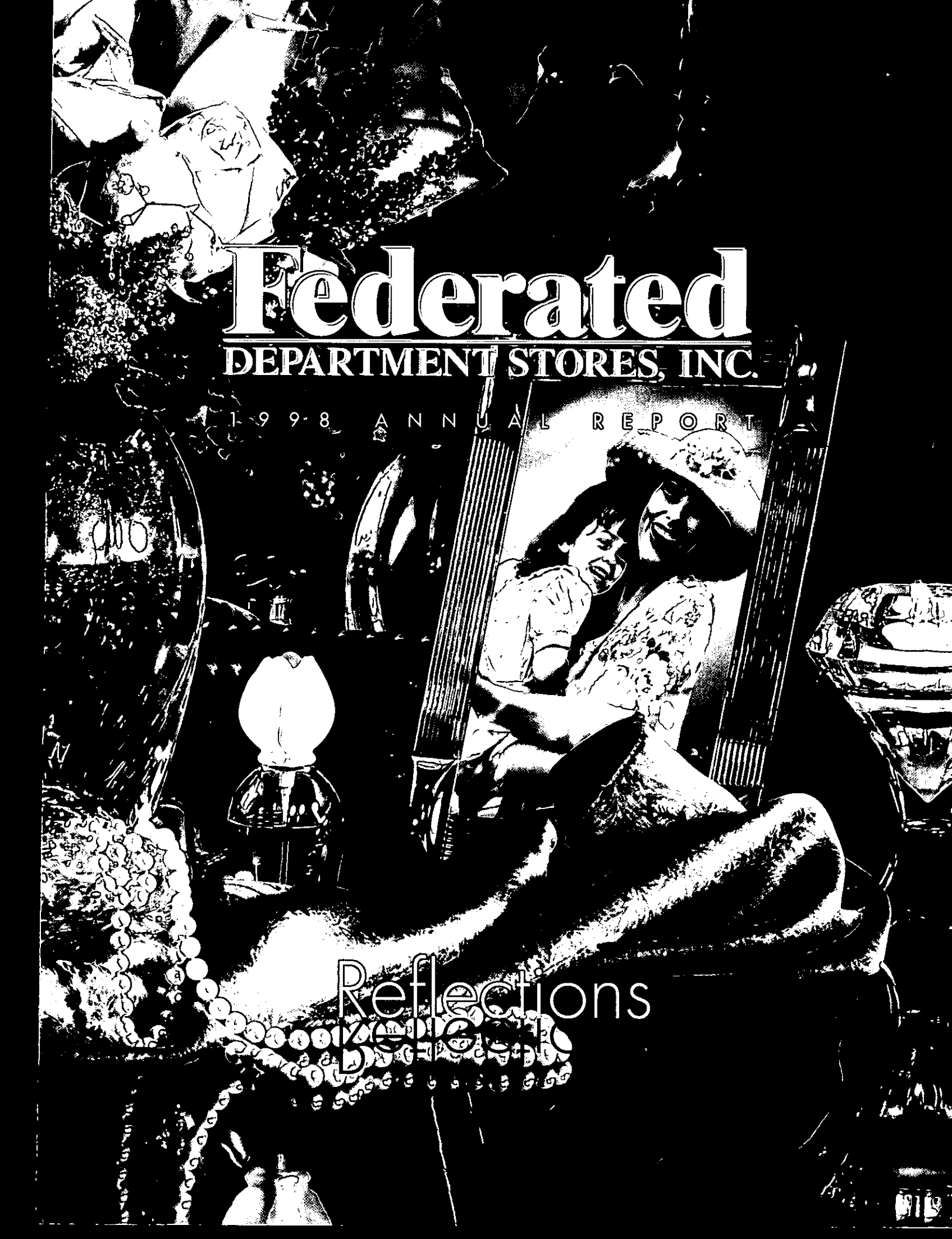

Federated
DEPARTMENT STORES, INC.
1998 ANNUAL REPORT
Reflections

PROFILE & REFLECTIONS

ABOUT FEDERATED

Federated Department Stores, Inc. is the nation's leading operator of premier department stores, with more than 400 department store locations in 33 states, as well as direct-to-customer retail operations — the Macys.Com electronic commerce site and two national fashion catalogs (Bloomingdale's By Mail and Macy's By Mail).

Federated's corporate structure capitalizes on the strengths of its divisions while bringing new dimensions of operating efficiencies, financial leverage and strategic growth opportunities to the company's operations.

COMMUNITY INVOLVEMENT

Each Federated department store division is well established in its operating areas, with historical ties to its markets stretching back into the 19th Century.

The company believes in giving back to the communities from which it draws strength and sustenance, and understands that stronger, healthier and more vibrant communities provide better environments for our stores to do business and for our employees and customers to live and work.

In 1998, cash contributions to charitable organizations by Federated and its divisions – including those made by the Federated Department Stores Foundation – totaled more than $12 million. A significant and growing percent of direct giving was devoted to two areas of strategic focus – women's issues and AIDS.

In addition, Partners in Time, the company's nationally recognized volunteer program, involves all divisions and support operations. In 1998, more than 54,000 employees volunteered nearly 103,000 hours of time to more than 2,900 Partners in Time projects – touching nearly every segment of American society.

DIVERSITY

As a leading retailer in some of America's largest and most diverse metropolitan areas, Federated prides itself on aggressively encouraging inclusion of individuals of all types within its workforce, vendor relationships and customer base. Management's philosophy is intended to ensure that appreciation for the unique characteristics and strengths of every person is pervasive at every level of the company.

Of Federated's total workforce, approximately 74 percent are women and 39 percent belong to a racial minority group. In management ranks, 65 percent of our executives are women and 20 percent are racial minorities. This makes Federated among the leaders in diversity in our industry, as well as among major U.S. corporations.

Additionally, Federated's vendor development program seeks to source goods and services – either for resale or in support of business operations – from qualified minority- and women-owned enterprises. In 1998, these purchases totaled approximately $310 million.

FINANCIAL HIGHLIGHTS

	1998	1997	1996	1995
Net Sales	**$15.833 billion**	$15.668 billion	$15.229 billion	$13.998 billion*
Operating Income				
Excluding unusual items (Note 1)	**$ 1,455 million**	$1,341 million	$1,202 million	$ 995 million
% of sales	**9.2%**	8.6%	7.9%	7.1%
EBITDA (Note 2)	**$ 2,079 million**	$1,931 million	$ 1,735 million	$ 1,470 million
% of sales	**13.1%**	12.3%	11.4%	10.5%
Net Income (Note 1)				
Excluding unusual items	**$ 685 million**	$ 575 million	$ 453 million	$ 333 million
Including unusual items	**$ 662 million**	$ 536 million	$ 266 million	$ 75 million
Diluted Earnings Per Share (Note 1)				
Excluding unusual items	**$3.06**	$ 2.58	$ 2.09	$ 1.79
Including unusual items	**$2.96**	$ 2.41	$ 1.24	$ .39

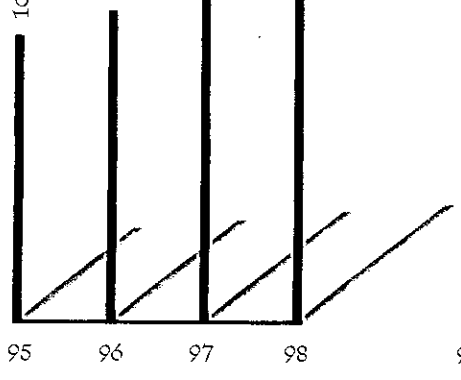
*Excludes net sales of $1.051 billion for Broadway stores.

Notes:

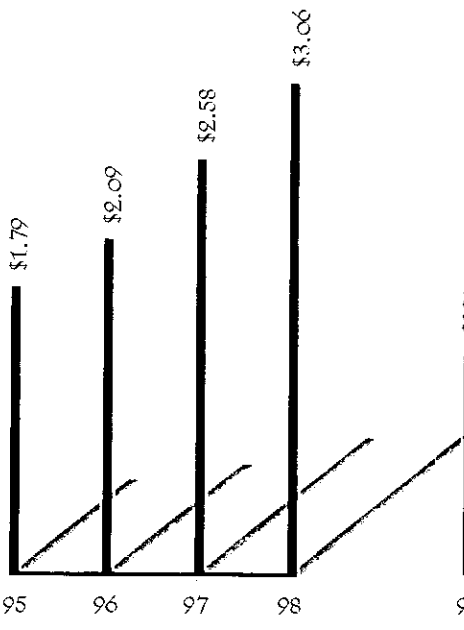
(1) Unusual items represent inventory valuation adjustments related to consolidations and business integration and consolidation expenses (BICE) in 1995 and 1996, the charitable contribution to the Federated Department Stores Foundation in 1995, the impact, in 1995, of the Broadway Stores, Inc. acquisition on Federated's consolidated operations, interest expense and per share earnings and, if applicable, the loss associated with the prepayment of debt in 1997 and 1998.

(2) EBITDA represents earnings before interest, taxes, depreciation, amortization, BICE, the charitable contribution to the Federated Department Stores Foundation and the impact, in 1995, of the Broadway Stores, Inc. acquisition on Federated's consolidated operations.

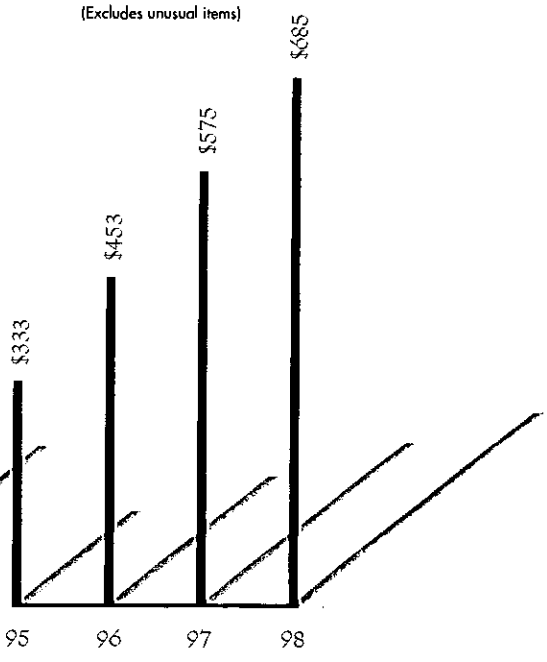
EBITDA
As a Percent of Sales
(Earnings Before Interest, Taxes, Depreciation and Amortization)



Diluted Earnings Per Share
(Excludes unusual items)



Net Income
In Millions
(Excludes unusual items)



LETTER TO SHAREHOLDERS

DEAR FELLOW SHAREHOLDER:

This year's annual report provides an opportunity for us to look into the mirror and reflect candidly on the year past, and to look through the window of our future to what's ahead for Federated as we continue to refine, evolve and improve our ability to serve our customers.

Simply put, we are encouraged by what we see.

1998 was a good year for Federated. At the outset we set forth some clear objectives, which we shared with you in this letter last year. Among our primary goals were to increase sales and earnings by focusing on such key strategies as improving assortments and inventory management, merchandise receipt flow and customer service at point of sale.

We accomplished what we set out to do in 1998, including increased sales, earnings and return on gross investment, all of which are discussed in more detail in the box to the right. Two important accomplishments of the past year were improvements in inventory management and receipt flow, and a major turnaround in the all-important fourth quarter. Both deserve a closer look...

First, by focusing on doing a better job of managing our inventories and receipt flows during the past year, we ensured that our customers consistently could find fresh, seasonal merchandise in our stores at the times these items were most wanted. One of the key benefits derived from this improved inventory management was a stronger gross margin rate in the transitional second and fourth quarters when retail margins traditionally have suffered most.

As for the fourth quarter, it is no secret that we were disappointed with our 1997 Christmas performance, after which we were determined to learn from our mistakes and to make this a major priority for 1998. That we were able to do so is the result of hard work and effort by a lot of people across the company who began the year with a single charge: to reassess each of our fourth quarter strategies and effectively reassemble them in ways that ensured newness and uniqueness of merchandise, as well as more effective advertising and promotional calendars – including appropriate emphasis on that increasingly important fifth week of December.

A MIRROR ON 1998

By the following key measures, we were pleased with Federated's 1998 results:

- **Earnings – Net income was $685 million or $3.06 a share in fiscal 1998, up 19% versus net income of $575 million or $2.58 a share for the prior year, excluding unusual items. On a pre-tax basis, income totaled $1.163 billion or 7.3% of sales in 1998, an increase of 21% over the previous 12-month period.**
- **Sales – Federated's sales totaled $15.8 billion for the 52 weeks ended January 30, 1999, an increase of 1.8% (excluding specialty stores, which were sold mid-year), or 2.2% on a comparable-store basis.**
- **Cost of sales – Federated's cost of sales continued its positive declining trend, dropping to 60.7% in 1998 from 61.1% in fiscal 1997.**
- **Operating income – The company's operating income for fiscal 1998 was $1.455 billion, an increase of 8.5% over operating income of $1.341 billion for the prior fiscal year. As a percent of sales, 1998's operating income increased 60 basis points to 9.2%.**
- **Return on gross investment (ROGI) – This important measure of the business – defined as earnings before income taxes, depreciation, amortization and gross rent, divided by total average gross investment – increased to 16.6% in 1998, compared to 15.7% in 1997 and 14.6% in 1996.**

The emphasis we placed on improving Federated's fourth quarter results led to a strong 4.1% increase in comparable-store sales for the period in 1998 – and did so while improving the gross margin rate. Our customers sent us a clear message — they will shop with us when we have the right assortments and compelling value.

Also in 1998 we launched two new retail outlets – Macy's By Mail, a direct mail catalog, and Macys.Com, which extends the Macy's brand to customers everywhere via the Internet. While these new enterprises are very small parts of our current business, we believe they offer the opportunity for significant incremental sales growth by strengthening our reach to segments of the population who, in addition to shopping in our stores, enjoy the convenience of shopping anytime night or day from their own homes, those who live in parts of the country where we currently do not operate Macy's stores, and, through the Internet, a somewhat younger demographic than the traditional department store customer.

A WINDOW ON 1999 AND BEYOND

We believe the future of retailing is all about options – creating, recognizing and taking advantage of them, and consistently keeping open as many as possible.

To remain a leader in department store retailing, Federated must continually adapt, evolve and change with the times. This is not new. It is something we have done relentlessly over the past 160 years – and it is the strength of the department store format that such change can happen naturally. With this in mind, our priorities for 1999 reflect this evolution of our business and define our expectations for the coming year and into the first decade of the new century.

Our number one objective and the primary measure of our success continues to be the acceleration of comparable-store sales growth at planned profit rates and investment levels. In order to meet this objective, we are going to be focused on the merchandising and operational strategies highlighted in the section to the right entitled "A Window on 1999 and Beyond."

In addition to these objectives that reflect our primary focus on department stores, we will be moving during the coming months to maximize business benefits inherent in Federated's acquisition of Fingerhut Companies, Inc. We believe this acquisition represents a wise investment for Federated's shareholders, and an exciting opportunity to position Federated to take advantage of future anticipated growth in direct-to-customer retailing, both through direct mail catalogs and Internet e-commerce.

And finally, looking to our company's longer term future, we initiated in the past year an intensive internal analysis of how we could better serve today's department store customer – and more effectively attract tomorrow's. This process brought together a team of some of the brightest people in the company, who were asked to challenge all prior assumptions and to take a long, hard look at what could be done to better meet the changing needs of changing times.

Ultimately, we learned a lot through this extensive process about what we want Federated's department stores to become as we enter the next millennium. Some of these new directions you will find discussed elsewhere in this annual report.

IN CLOSING

The accomplishments of this past year can be attributed to the energy of many talented, dedicated people across Federated, each of whom rose to the challenges that were presented and the many demands that were made on their skills, stamina and creativity. We thank them. They are the heart and soul of our company, and key to our future success. Among the best and the brightest of Federated's approximately 119,000 employees nationally are this year's inductees into our Star Academy. You can meet them on page 13.

We also want to take a moment to remember a dear friend and colleague who no longer is with us. Robert C. Seppelt, who served as Federated's vice president of tax since 1989, died in November at the age of 44. He was brilliant and did his job better than anyone could have done during some of the company's most difficult times. For that and for the special kind of person he was, Bob will be missed.

It appears that the year ahead will be another exciting and challenging one, and one we hope also will be rewarding for both Federated and its shareholders. Along with our entire management team, we remain committed to achieving that result.

Sincerely,

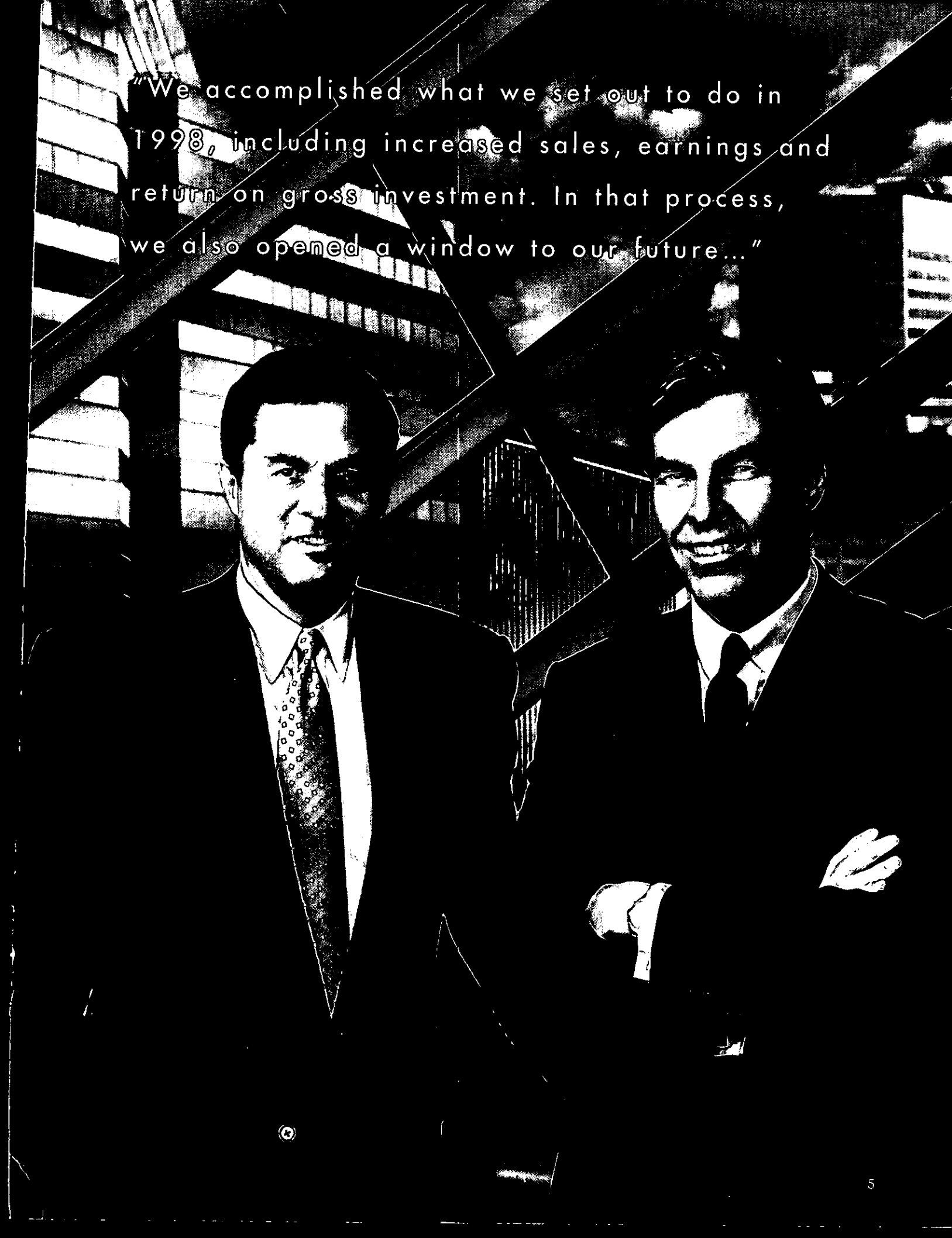
James M. Zimmerman
Chairman/Chief Executive Officer

Terry J. Lundgren
President/Chief Merchandising Officer

April 21, 1999

A WINDOW ON 1999 AND BEYOND

- We will be significantly editing and improving our merchandise assortments throughout the year, adding newness and differentiated merchandise on an ongoing basis in order to meet our customers' expectations for consistently finding in our stores the appropriate mix of new seasonal fashions and wear-now apparel.
- We will be taking more of a stand on the latest trends and "must have" seasonal items. Our divisions will be actively supporting this objective in everything from authoritative in-store merchandise displays to the allocation of capital and advertising dollars.
- Our stores will be aggressively promoting key gift items for special occasions throughout the year, with a strong emphasis on further improving the important fourth quarter.
- We will continue to concentrate on continued improvements in inventory management and new merchandise receipt flow.
- We will be identifying additional ways to maximize the potential inherent in our store nameplates and private brands.
- We will be seeking to improve the total shopping experience – raising standards for merchandise presentation and stock-keeping, increasing the number and staffing of customer service "mega wrap" stands and speeding transactions at point of sale.
- We will continue to emphasize and further enhance programs geared to attracting, developing and retaining high-potential employees at all levels and in all areas of our business.


"We accomplished what we set out to do in 1998, including increased sales, earnings and return on gross investment. In that process, we also opened a window to our future..."

REFLECTIONS...

Every company must look at itself in a mirror from time to time to reflect on its strengths and weaknesses, its opportunities and challenges, its future. This is particularly true in retailing, where the customer and competition change daily. A retailer must understand and critique itself if it expects to improve its ability to attract, retain and serve customers in a dynamic marketplace.

That's exactly what we're doing today at Federated. We're taking a hard look at ourselves en route to molding a targeted retailing model that will continue to prosper amid changing consumers, demographics and expectations in the next millennium.

We're studying the American consumer. We're analyzing demographic trends. We're evaluating the role of fashion in society. And we're beginning to experiment with ideas and concepts that have the opportunity to germinate into new business opportunities.

To be successful in this pursuit, we must come to grips with the perceptions and myths that drive consumers' purchase decisions. We must strengthen what's best about our stores and operations... fix what's broken... and capitalize on best practices.

So we think it's time to look at the reality of department store retailing in today's world... and tomorrow's. The following pages provide an assessment of where we are, what we're doing and where Federated is headed as the 1990s draw to a close...

RECAPTURING THE EXCITEMENT

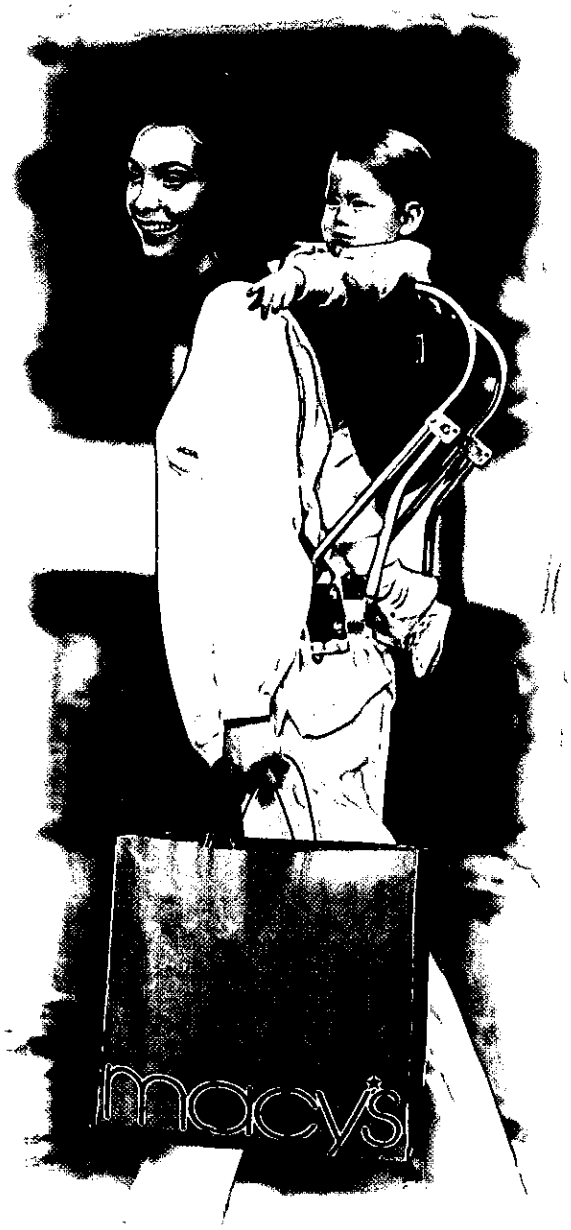
At Federated, we're taking decisive action to enhance the excitement in our business.

We've analyzed our own retailing formula, as well as studied some of the most successful specialty and discount retail practices of the 1990s. Today, we have the opportunity and the resources to improve significantly how we approach the customer, including adapting or adopting a few tried-and-true techniques from other types of retailers into the framework of our familiar department store format.

A futures task force of senior Federated corporate and divisional executives began meeting in the summer of 1998 to apply a range of new thinking to current and future operations of the company. Federated is committed to ensuring higher levels of innovation across the organization through out-of-the-box thinking designed to better meet customer needs and expectations – and to turn up the level of "fun" for our shoppers.

As a starting point, we recognize the fundamental importance of focusing our department store assortments to emphasize newness and uniqueness – and to offer merchandise in a manner that fits today's consumers and how they want to live. We'll be responding more quickly to trends, and presenting most-wanted merchandise in a manner that maximizes impact, streamlines the shopping experience and excites the customer.

We have identified those families of business that will be the strength of our total store, and we will be reconfiguring our locations to be the undisputed and preferred destinations for that core merchandise.



THINKING TODAY OF TOMORROW

A quick glonce ot who's shopping on the Internet explains its volue to Federoted, o compony with well-recognized notionol retoil "brond" nomes, expertise in technology, ond interest in cultivoting younger, foshion-oriented customers.

According to Jupiter Reseorch, the overoge current Internet shopper is 33 yeors old, college-educoted ond hos o household income of $59,000. In 1998, women (the troditionol department store torgeted customer) occounted for 47% of oll Internet users, ond ore expected to constitute more thon 50% of oll Internet users by 2002. Working mothers in duol-income fomilies moke up the fostest growing demogrophic segment online.

Gifts, household goods ond opporel – oll strong Federoted businesses – were omong the lorgest ond fostest growing categories of goods sold online in 1998.

One of the biggest challenges and most promising opportunities open to Federated is the ability to develop relationships with younger consumers that will attract them to our company's merchandise offering – and then keep them coming back for decades thereafter. We are working on several strategies to accomplish this, including acquiring and developing alternative direct-to-consumer retail formats, such as Internet retailing, and re-building excitement in our stores, making them more fun and fashion relevant for today's younger customer.

Appealing to more diverse customers is vital, and so is offering options for different customer lifestyles and stages of life. One of the ways we are doing this is through our national Bridal and Gift Registries. Here, we can establish relationships with young couples as they are just starting out in life – relationships that later can evolve to meet needs for growing families and homes and burgeoning careers.

Last year's successful re-launch of Macys.Com illustrates another initiative to extend Macy's brand name to those who prefer to shop online or who don't live near a Macy's store. With a similar objective in mind, we launched the Macy's By Mail national catalog last year. It complements the already successful Bloomingdale's By Mail catalog, which in turn is complemented by the Bloomingdales.Com Internet site and a strong group of established Bloomie's stores.

Federated believes direct-to-consumer marketing presents an opportunity to drive significant growth in revenues and return on investment in the years ahead. In order to tap this potential, the company moved early in 1999 to acquire Fingerhut Companies, Inc., a leading direct marketing company, for $1.7 billion. While Fingerhut will help strengthen Federated's electronic commerce presence in the short term, the greater long-term advantage will evolve as Fingerhut's expertise in direct-to-customer systems, database management, call center operation and fulfillment leverage Federated's well-recognized brand names and strength in merchandising.

SHARPENING OUR FASHION FOCUS

Although the lack of broad new fashion trends has challenged department store retailers in recent years, we have found success in aggressively merchandising and marketing our own private brands, as well as in many of our vendor in-store shops and boutiques.

In the future we intend to be more aggressive in identifying, supporting and presenting our own merchandise trends.

Our intent is to present trend merchandise with conviction through cohesive trend-merchandise departments in the most visible areas of the store, rather than in scattering a dominant assortment of similar fashion goods throughout the store. These trend departments will accentuate the hottest merchandise – from both national and private brands, and often including women's, junior's, men's and children's apparel in that particular style.

We believe Federated is well positioned to execute this strategy. Over the past four years, our strategically positioned private brands – such as Charter Club, I·N·C, Alfani and Tools of the Trade – have become some of the best-selling merchandise lines in our stores. Along the way, we have been able to create new trends, as well as capitalize on other fashion phenomena by designing and producing unique items of our own.

The company's aggressive fashion leadership position, as well as the strength of private brands, will form the basis for future promotional campaigns designed to build Federated's store nameplates as retail "brands" that are relevant to the customer and differentiated from competitors.

PUTTING A PREMIUM ON CONVENIENCE

The Future is Now

- Expect improvements in the way Federated department stores look and feel in the future. Tomorrow's stores will have more windows to allow natural light into the selling spaces. Sight lines across departments will be clearer so the customer can easily find merchandise of interest. Higher-capacity fixtures will hold more merchandise while making stores less cluttered.
- In larger stores, we will be adding more customer conveniences, such as sitting areas, coat checks and upscale coffee and juice bars like that pictured above, where customers can relax and rejuvenate within the store environment.
- Stores also will be designed to apply new thinking about the most effective configuration of adjacent departments and merchandise lines. For example, a range of different types of goods designed for juniors and young men – including apparel, accessories, cosmetics and gifts – may be grouped to create a single environment relevant to their lifestyles and interests.

A primary advantage of a department store is its inherent ability to offer a wide variety of apparel, accessories, gifts and home goods under one roof. This has strong appeal for time-strapped consumers.

Successful stores must have merchandise that is easy to locate. Stores also must be responsive to customers who want their transactions handled quickly once merchandise is selected. So with this in mind, we are realigning our store designs and visual presentations to meet this customer expectation.

Our new and remodeled stores will place greater emphasis on creating distinctive, high-impact, well-lighted environments. Also reflected in this new design approach is our belief that a customer should be able to recognize immediately those lines and items that represent the current fashion trends and most-wanted merchandise. Our new stores will place more emphasis on integrating visual merchandising and store design elements to meet this objective.

We're doing other innovative things, too, including developing our direct-to-customer businesses and finding new ways to bring this kind of technology into our stores.

And we will continue to expand the use of centralized customer service centers on the selling floors of high-traffic departments in stores nationwide. Federated pioneered this approach, allowing customers to locate a sales associate quickly if help is required, and providing an easily identifiable destination for completing a purchase.

REDEFINING SERVICE & VALUE

Service and value will continue to be essential ingredients of a successful retailing formula in the decades ahead.

We employ thousands of outstanding sales associates (including those 1998 members of our Star Academy pictured on page 13). And even within the context of a society where service in general often is described as becoming extinct, Federated is re-energizing itself to instill a "customer-first" mentality throughout the organization. We expect to invest incrementally greater resources in people (including strategically improving selling-floor sales assistance), as well as in training, technology and information to leverage talent already available.

Investments in technology, for example, already have allowed sales associates to spend less time processing transactions and more time with the customer.

Along with service and quality, department store customers want reasonable prices. Recognizing that customers enjoy promotional sales but tire from encountering too many price-cutting messages, Federated continues to experiment with ways to lessen the predominance of today's "on sale" mentality. We are trying to optimize the size and variety of our promotional events, as well as provide value through everyday low pricing where this makes sense.

At the same time, we are redoubling efforts to bring new and different merchandise into our stores, including unique merchandise within Federated's successful collection of private brands, to differentiate our assortments and attract business for reasons other than price alone.

A RETAIL WORLD OF OPPORTUNITY

The Federated Leadership Institute, launched in 1998, is a tool to help the company's executives, beginning with store managers, feel increasingly competent, productive and challenged in their jobs. We believe it is one of the most comprehensive and advanced corporate-driven executive training programs in the retail industry today.

Through a concentrated week-long experience, participants focus on new and different approaches to building a store environment for customers and the best work experience for store associates. They study best practices for change management, people development and conflict resolution, as well as ways to improve day-to-day execution.

By the end of 1999, more than 400 Federated store managers are expected to have been graduated from the Institute.

It's a whole new world in retailing, and as an industry leader Federated continues to position itself as an outstanding place to build a rewarding career in virtually every business-related field and specialty.

Many of Federated's most exciting career opportunities stem from the company's position in the vanguard of such high-appeal specialties as electronic commerce, branding, direct-to-consumer marketing, merchandise design, store planning, management information systems, logistics, merchandise buying and assortment planning.

We are recruiting more aggressively than ever before on leading college campuses, where our combination of competitive salaries, good benefits and exciting work environments helps us attract an important new generation of talent. Opportunities available in many of the nation's largest cities and most desirable regions also enable us to recruit a diverse employee base crucial to serving equally diverse customer populations.

Once on board, we work to ensure that employees have the clear career paths and advancement potential necessary for long-term career commitments.

Over the years, Federated earned its reputation as retailing's most prolific training ground for merchandising, managerial and executive talent. That tradition continues today, supported by the Federated Leadership Institute, a corporate advanced-learning program developed to strengthen leadership and business management skills among key executives. The Institute is designed to provide our key executives with the knowledge and tools they need to drive change and support Federated's strategic objectives (see column at left).

GENERATING GROWTH & IMPROVED RETURN ON INVESTMENT

Over the past three years, Federated has grown its earnings per share by an average of 20% a year, while also increasing return on gross investment (ROGI) to 16.6% from 14.6%, as seen in the chart at right.

We're proud of this demonstrated ability to grow earnings while improving return on investment, and we remain committed to identifying growth strategies that will enable us to achieve our targeted 15% annual growth in earnings per share while also continuing to increase ROGI.

As we look to the future, we expect that our first source of growth will continue to come from our department store business, including efforts to accelerate comparable-store sales trends and the opening of an average of five to eight new stores a year. Additionally, we intend to complement this growth in department stores with our investment in other areas that will leverage Federated's strong retail nameplates, as well as the company's recognized merchandising and operational capabilities.

RETURN ON GROSS INVESTMENT (ROGI)

($ in millions)

	1998	1997	1996
Earnings before income taxes, depreciation, amortization and gross rent*	$ 2,269	$ 2,144	$ 1,971
Total average gross investment**	$13,701	$13,694	$13,467
ROGI	**16.6%**	**15.7%**	**14.6%**

* Excludes business integration and consolidation expenses and inventory valuation adjustments.

** Gross investment is defined as average gross fixed assets undepreciated from initial cost, including capitalization of operating leases, and the average balances of all other assets and liabilities excluding debt, a monetized note receivable, intangible assets and income taxes.

THE STAR ACADEMY

These selling service professionals were inducted into Federated's Star Academy for superior performance in 1998:

Front row, left to right: Kelly Hammel, Bloomingdale's, New York, NY; Danielle Solomon, Burdines, Dadeland, FL; Mary Graber, Stern's, Flushing, NY; Tracey Tran, Bloomingdale's, Stanford, CA; Inae Kang, Macy East, King of Prussia, PA; Margie Saxby, The Bon Marché, Downtown Seattle, WA; Cindy Nalley, Macy East, Town Center, Atlanta, GA; Darlene Sanchez, Burdines, Gainesville, FL

Back row, left to right: Karin Washington, Macy West, Northridge, CA; Bob Barnicoot, Stern's, Paramus, NJ; Vijay Kathari, Lazarus, Tuttle Crossing-Columbus, OH; Traci Naylor, The Bon Marché, Boise, ID; Tim Hensley, Galdsmith's, Jackson, TN; Rich Trani, Macy West, Hillsdale-San Mateo, CA

DIVISION PRINCIPALS

DEPARTMENT STORES

Bloomingdale's
Michael Gould, Chairman
Jeffrey Sherman, President

The Bon Marché
Daniel H. Edelman, Chairman
Timothy M. Adams, President

Burdines
Susan Kronick, Chairman
Michael J. Osbarn, President
J. David Scheiner, Vice Chairman & Director of Stores

Macy's East
Harold D. Kahn, Chairman
James E. Gray, President
Peter R. Sachse, Vice Chairman & Director of Stores

Macy's West
Michael Steinberg, Chairman
Jeremiah J. Sullivan, President
Rudolph J. Borneo, Vice Chairman & Director of Stores

Rich's/Lazarus/Goldsmith's
Arnold Orlick, Chairman
Edwin J. Halman, President

Stern's
Ronald Klein, Chairman
James N. Andress, President

SUPPORT OPERATIONS

Federated Merchandising Group
Janet E. Grove, Chairman
Leonard Morcus, President

Financial and Credit Services
James J. Amann, Chairman

Federated Logistics & Operations
Tom Cole, Chairman

Federated Systems Group
James J. Amann, Choirman
Larry A. Lewark, President

CATALOGS/E-COMMERCE

Bloomingdale's By Mail
Judy Daniel, President

Macy's By Mail
Ranald L. Ramseyer, President

Macys.Com
Kent Anderson, President

BOARD OF DIRECTORS

Standing, left to right: Sara Levinson, Meyer Feldberg, Karl M. von der Heyden, Terry J. Lundgren, James M. Zimmerman, Craig E. Weatherup and Joseph Neubauer. Seated, left to right: George V. Grune, Ronald W. Tysoe, Earl G. Graves, Sr. and Marna C. Whittington. (Not pictured: Joseph A. Pichler)

Meyer Feldberg
Dean,
Columbia Business School
Columbia University

Earl G. Graves, Sr.
Chairman &
Chief Executive Officer,
Earl G. Graves, Ltd.

George V. Grune
Chairman,
DeWitt Wallace & Lila Wallace-Reader's Digest Funds

Sara Levinson
President,
NFL Properties, Inc.

Terry J. Lundgren
President &
Chief Merchandising Officer,
Federated Department Stores, Inc.

Joseph Neubauer
Chairman & Chief Executive Officer,
ARAMARK Corporation

Joseph A. Pichler
Chairman &
Chief Executive Officer,
The Kroger Co.

Ronald W. Tysoe
Vice Chairman,
Finance and Real Estate,
Federated Department Stores, Inc.

Karl M. von der Heyden
Vice Chairman,
PepsiCo, Inc.

Craig E. Weatherup
Chairman &
Chief Executive Officer,
The Pepsi Bottling Group

Marna C. Whittington
Chief Operating Officer,
Morgan Stanley Dean Witter
Investment Management

James M. Zimmerman
Chairman &
Chief Executive Officer,
Federated Department Stores, Inc.

CORPORATE MANAGEMENT

EXECUTIVE OFFICERS

James M. Zimmerman
Chairman & CEO

Terry J. Lundgren
President & CMO

Ronald W. Tysoe
Vice Chairman,
Finance and Reol Estate

Thomas G. Cody
Executive VP,
Legal & Human Resources

SENIOR VICE PRESIDENTS

Dennis J. Broderick
General Counsel & Secretary

Karen M. Hoguet
CFO, Planning and Treasurer

Rudolph V. Javosky
Design & Construction

VICE PRESIDENTS

Joel A. Belsky
Controller

David W. Clark
Executive and Organizational Development, Diversity/ Training/Compensation

Neal J. Glueck
Tax

Gary J. Nay
Real Estate

Carol A. Sanger
Corporate Communications and External Affairs

John R. Sims
Deputy General Counsel

Joseph F. Vella
Employee Relations

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 of the Securities Exchange Act of 1934

For the Fiscal Year Ended
January 30, 1999

Commission File Number
1-13536

Federated Department Stores, Inc.

151 West 34th Street
New York, New York 10001
(212) 494-1602
and
7 West Seventh Street
Cincinnati, Ohio 45202
(513) 579-7000

Incorporated in Delaware

I.R.S. No. 13-3324058

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $.01 per share	New York Stock Exchange
Rights to Purchase Series A Junior Participating Preferred Stock	New York Stock Exchange
Series C Warrants	New York Stock Exchange
Series D Warrants	New York Stock Exchange
10% Senior Notes due 2001	New York Stock Exchange
8.125% Senior Notes due 2002	New York Stock Exchange
8.5% Senior Notes due 2003	New York Stock Exchange
7.45% Senior Debentures due 2017	New York Stock Exchange
6.79% Senior Debentures due 2027	New York Stock Exchange
7% Senior Debentures due 2028	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

None

The Company has filed all reports required to be filed by Section 12, 13, or 15(d) of the Act during the preceding 12 months and has been subject to such filing requirements for the past 90 days.

There were 208,576,562 shares of the Company's Common Stock outstanding as of April 2, 1999, excluding shares held in the treasury of the Company or by subsidiaries of the Company. The aggregate market value of the shares of such Common Stock, excluding shares held in the treasury of the Company or by subsidiaries of the Company, based upon the last sale price as reported on the New York Stock Exchange Composite Tape on April 1, 1999, was approximately $8,225,700,000.

Documents Incorporated by Reference

Portions of the definitive proxy statement (the "Proxy Statement") relating to the Company's Annual Meeting of Stockholders to be held on May 21, 1999 (the "Annual Meeting"), are incorporated by reference in Part III hereof.

Unless the context requires otherwise, (i) references to "the Company" are, for all periods prior to December 19, 1994 (the "Merger Date"), references to Federated Department Stores, Inc. ("Federated") and its subsidiaries and their respective predecessors, and for all periods following the merger (the "Merger") of Federated and R.H. Macy & Co. Inc. ("Macy's") on the Merger Date, references to the surviving corporation in the Merger and its subsidiaries and (ii) references to "1998," "1997," "1996," "1995" and "1994" are references to the Company's fiscal years ended January 30, 1999, January 31, 1998, February 1, 1997, February 3, 1996 and January 28, 1995, respectively.

This report and other reports, statements and information previously or subsequently filed by the Company with the Securities and Exchange Commission (the "SEC") contain or may contain forward-looking statements. Such statements are based upon the beliefs and assumptions of, and on information available to, the management of the Company at the time such statements are made. The following are or may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995: (i) statements preceded by, followed by or that include the words "may," "will," "could," "should," "believe," "expect," "future," "potential," "anticipate," "intend," "plan," "estimate" or "continue" or the negative or other variations thereof and (ii) statements regarding matters that are not historical facts. Such forward-looking statements are subject to various risks and uncertainties, including (i) risks and uncertainties relating to the possible invalidity of the underlying beliefs and assumptions, (ii) possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions, and (iii) actions taken or omitted to be taken by third parties, including customers, suppliers, business partners, competitors and legislative, regulatory, judicial and other governmental authorities and officials. In addition to any risks and uncertainties specifically identified in the text surrounding such forward-looking statements, the statements in the immediately preceding sentence and the statements under captions such as "Risk Factors" and "Special Considerations" in reports, statements and information filed by the Company with the SEC from time to time constitute cautionary statements identifying important factors that could cause actual amounts, results, events and circumstances to differ materially from those reflected in such forward-looking statements.

Item 1. Business.

General. The Company is one of the leading operators of full-line department stores in the United States, with over 400 department stores in 33 states as of January 30, 1999. The Company operates its department stores under the names "Bloomingdale's," "The Bon Marché," "Burdines," "Goldsmith's," "Lazarus," "Macy's," "Rich's" and "Stern's." The Company's department stores sell a wide range of merchandise, including men's, women's and children's apparel and accessories, cosmetics, home furnishings and other consumer goods, and are diversified by size of store, merchandising character and character of community served. The Company's department stores are located at urban or suburban sites, principally in densely populated areas across the United States. The Company also operates direct mail catalog businesses under the names "Bloomingdale's By Mail" and "Macy's By Mail" and an electronic commerce business which provides goods and services online under the name "macys.com." In general, the Company conducts its business through subsidiaries.

The Company provides various support functions to its retail operating divisions on an integrated, company-wide basis.

- The Company's financial and credit services subsidiary, FACS Group, Inc. ("FACS"), supports the proprietary credit programs of the Company's retail operating divisions in respect of all proprietary credit card accounts owned by the Company except support relating to statement mailing and payment

processing, which is provided by GE Capital Consumer Card Co. ("GE Bank"). GE Bank owns all of the "Macy's" credit card accounts originated prior to the Merger and an allocated portion of the "Macy's" credit card accounts originated subsequent to the Merger. In addition, FACS provides payroll and benefits services to the Company's retail operating and service divisions.

- The Company's data processing subsidiary, Federated Systems Group, Inc. ("FSG"), provides (directly and pursuant to outsourcing arrangements with third parties) operational electronic data processing and management information services to each of the Company's retail operating and service divisions.

- Federated Merchandising Group, a division of the Company, helps the Company to centrally develop and execute consistent merchandise strategies while retaining the ability to tailor merchandise assortments and strategies to the particular character and customer base of the Company's various department store franchises. Federated Merchandising Group is also responsible for the private label development of the Company's retail operating divisions except for Bloomingdale's and Stern's, which source some of their private label merchandise through Associated Merchandising Corporation. Bloomingdale's also has its own private label program.

- Federated Logistics, a division of a subsidiary of the Company, provides warehousing and merchandise distribution services for the Company's retail operating divisions.

- A specialized staff maintained in the Company's corporate offices provides services for all divisions of the Company in such areas as store design and construction, accounting, legal; real estate, insurance and supply purchasing, as well as various other corporate office functions.

FACS, FSG and certain departments in the Company's corporate offices also offer their services to unrelated third parties.

The Company and its predecessors have been operating department stores since 1820. Federated was organized as a Delaware corporation in 1920. On May 26, 1994, Federated acquired Joseph Horne Co., Inc. pursuant to a subsidiary merger. On December 19, 1994, Federated acquired Macy's pursuant to the Merger. On October 11, 1995, the Company acquired Broadway Stores, Inc. ("Broadway") pursuant to a subsidiary merger.

On March 18, 1999, the Company acquired Fingerhut Companies, Inc. ("Fingerhut"). Fingerhut is a leading database marketing company that sells a broad range of products and services through catalogs, direct marketing and the Internet. In addition to the core Fingerhut catalog business, Fingerhut also owns: (i) Figi's, a food and gift catalog business; (ii) Arizona Mail Order and Bedford Fair, both apparel catalog businesses; and (iii) Popular Club, a membership-based general merchandise catalog business. Fingerhut also offers a broad range of business services to third parties, including telemarketing, direct marketing, information management, warehousing, product fulfillment and distribution, order and returns processing and customer service, and has investments in several providers of Internet-based merchandise and services.

The Company's executive offices are located at 151 West 34th Street, New York, New York 10001, telephone number: (212) 494-1602 and at 7 West Seventh Street, Cincinnati, Ohio 45202, telephone number: (513) 579-7000.

Employees. As of January 30, 1999, the Company had approximately 118,800 regular full-time and part-time employees. Because of the seasonal nature of the retail business, the number of employees peaks in

the Christmas season. Approximately 10% of the Company's employees as of January 30, 1999 were represented by unions. Management considers its relations with employees to be satisfactory.

Seasonality. The department store business is seasonal in nature with a high proportion of sales and operating income generated in the months of November and December. Working capital requirements fluctuate during the year, increasing somewhat in mid-summer in anticipation of the fall merchandising season and increasing substantially prior to the Christmas season when the Company must carry significantly higher inventory levels.

Purchasing. The Company purchases merchandise from many suppliers, no one of which accounted for more than 5% of the Company's net purchases during 1998. The Company has no long-term purchase commitments or arrangements with any of its suppliers, and believes that it is not dependent on any one supplier. The Company considers its relations with its suppliers to be satisfactory.

Competition. The retailing industry, in general, and the department store business, in particular, are intensely competitive. Generally, the Company's stores are in competition not only with other department stores in the geographic areas in which they operate but also with numerous other types of retail outlets, including specialty stores, general merchandise stores, off-price and discount stores, new and established forms of home shopping (including mail order catalogs, television and Internet services) and manufacturers' outlets.

Item 1A. Executive Officers of the Registrant.

The following table sets forth certain information regarding the executive officers of the Company:

Name	Age	Position with the Company
James M. Zimmerman	55	Chairman of the Board and Chief Executive Officer; Director
Terry J. Lundgren	46	President and Chief Merchandising Officer; Director
Ronald W. Tysoe	46	Vice Chairman, Finance and Real Estate; Director
Thomas G. Cody	57	Executive Vice President, Legal and Human Resources
Dennis J. Broderick	50	Senior Vice President, General Counsel and Secretary
Karen M. Hoguet	42	Senior Vice President, Chief Financial Officer and Treasurer
Joel A. Belsky	45	Vice President and Controller

James M. Zimmerman has been Chairman of the Board and Chief Executive Officer of the Company since May 1997; prior thereto he served as the President and Chief Operating Officer of the Company since May 1988.

Terry J. Lundgren has been President and Chief Merchandising Officer of the Company since May 1997 and served as the Chairman of the Company's Federated Merchandising Group division from February 1994 until February 19, 1998.

Ronald W. Tysoe has been Vice Chairman, Finance and Real Estate of the Company since April 1990 and served as Chief Financial Officer of the Company from April 1990 until October 31, 1997.

Thomas G. Cody has been Executive Vice President, Legal and Human Resources of the Company since May 1988.

Dennis J. Broderick has been Secretary of the Company since July 1993 and Senior Vice President and General Counsel of the Company since January 1990.

Karen M. Hoguet has been Senior Vice President of the Company since April 1991, Treasurer of the Company since January 1992, and Chief Financial Officer of the Company since October 31, 1997.

Joel A. Belsky has been Vice President and Controller of the Company since October 1996. Prior thereto, he served as Divisional Vice President and Deputy Controller of the Company since March 1993.

Item 2. Properties.

The properties of the Company consist primarily of stores and related retail facilities, including warehouses and distribution centers. The Company also owns or leases other properties, including corporate office space in New York and Cincinnati and other facilities at which centralized operational support functions are conducted. As of January 30, 1999, the Company operated 401 department stores in 33 states, comprising a total of 82,319,000 square feet. Of such department stores, 193 were entirely or mostly owned and 208 stores were entirely or mostly leased. The Company's interests in approximately 2% of its owned stores are subject to security interests in favor of certain third-party creditors Pursuant to various shopping center agreements, the Company is obligated to operate certain stores within the centers for periods of up to 20 years. Some of these agreements require that the stores be operated under a particular name.

Item 3. Legal Proceedings.

The Company and its subsidiaries are involved in various proceedings that are incidental to the normal course of their businesses. The Company does not expect that any of such proceedings will have a material adverse effect on the Company's financial position or results of operations.

Item 4. Submission of Matters to a Vote of Security-Holders.

None.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

The Common Stock is listed on the New York Stock Exchange (the "NYSE") under the trading symbol "FD." The following table sets forth for each fiscal quarter during 1998 and 1997 the high and low sales prices per share of Common Stock as reported on the NYSE Composite Tape:

	1998		1997	
	Low	High	Low	High
1st Quarter	42.750	53.000	31.625	38.250
2nd Quarter	49.813	56.188	34.625	44.125
3rd Quarter	32.813	53.313	39.313	45.438
4th Quarter	35.938	46.375	39.688	48.875

The Company has not paid any dividends on its Common Stock during its two most recent fiscal years, and does not anticipate paying any dividends on the Common Stock in the foreseeable future.

Item 6. Selected Financial Data.

The selected financial data set forth below should be read in conjunction with the Consolidated Financial Statements and the notes thereto and the other information contained elsewhere in this report.

	52 Weeks Ended January 30, 1999	52 Weeks Ended January 31, 1998	52 Weeks Ended February 1, 1997	53 Weeks Ended February 3, 1996	52 Weeks Ended January 28, 1995
	(millions, except per share data)				
Consolidated Statement of Income Data:					
Net sales, including leased department sales	$15,833	$15,668	$15,229	$15,049	$8,316
Cost of sales	9,616	9,581	9,354	9,410	5,146
Selling, general and administrative expenses	4,762	4,746	4,982	4,976	2,620
Operating income	1,455	1,341	893	663	550
Interest expense	(304)	(418)	(499)	(508)	(262)
Interest income	12	35	47	47	43
Income before income taxes and extraordinary items	1,163	958	441	202	331
Federal, state and local income tax expense	(478)	(383)	(175)	(127)	(143)
Income before extraordinary items	685	575	266	75	188
Extraordinary items (a)	(23)	(39)	—	—	—
Net income	$ 662	$ 536	$ 266	$ 75	$ 188
Basic earnings per share:					
Income before extraordinary items	$ 3.27	$ 2.74	$ 1.28	$ .39	$ 1.41
Net income	3.16	2.56	1.28	.39	1.41
Diluted earnings per share:					
Income before extraordinary items	$ 3.06	$ 2.58	$ 1.24	$ .39	$ 1.40
Net income	2.96	2.41	1.24	.39	1.40
Average number of shares outstanding	209.1	209.2	207.5	191.5	132.9
Depreciation and amortization	$ 624	$ 590	$ 533	$ 497	$ 286
Capital expenditures	$ 695	$ 696	$ 846	$ 699	$ 398
Balance Sheet Data (at year end):					
Cash	$ 307	$ 142	$ 149	$ 173	$ 206
Working capital	2,904	3,134	2,831	3,262	2,376
Total assets	13,464	13,738	14,264	14,295	12,277
Short-term debt	524	556	1,095	733	463
Long-term debt	3,057	3,919	4,606	5,632	4,529
Shareholders' equity	5,709	5,256	4,669	4,274	3,640

(a) The extraordinary items for 1998 and 1997 were after-tax expenses associated with debt prepayments.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations

Comparison of the 52 Weeks Ended January 30, 1999 and January 31, 1998. Net sales for 1998 were $15,833 million compared to $15,668 million for 1997, an increase of 1.1%. Excluding sales of the specialty stores division that was sold in July 1998, sales increased 1.8% over last year. On a comparable store basis, net sales for 1998 increased 2.2% compared to 1997.

Cost of sales was 60.7% of net sales for 1998, compared to 61.1% for 1997. The 0.4% improvement in the cost of sales rate reflects positive customer response to the merchandise assortments in the stores during the second and fourth quarters, attributed partially to an improved merchandise receipt flow. The valuation of merchandise inventory on the last-in, first-out basis did not impact cost of sales in either year.

Selling, general and administrative expenses were 30.1% of net sales for 1998, compared to 30.3% for 1997. Selling, general and administrative expenses include finance charge income and expenses for doubtful customer accounts receivable. Finance charge income was $345 million for 1998, down from $391 million in 1997, primarily due to lower average accounts receivable balances as a result of accelerated payments. Amounts charged to expense for doubtful accounts receivable were $112 million for 1998, compared to $167 million in 1997. The decrease primarily reflects a reduction in the amount of uncollectible balances written off in 1998, also a result of lower average accounts receivable balances and accelerated payments.

Net interest expense was $292 million for 1998, compared to $383 million for 1997. The lower interest expense for 1998 is principally due to lower levels of borrowings and lower interest rates resulting from refinancings completed in 1998 and 1997.

The Company's effective tax rate of 41.1% for 1998 differs from the federal income tax statutory rate of 35.0% principally because of the effect of state and local income taxes and permanent differences arising from the amortization of intangible assets and from other non-deductible items.

The extraordinary items of $23 million and $39 million for 1998 and 1997, respectively, represent after-tax expenses associated with debt prepayments.

Comparison of the 52 Weeks Ended January 31, 1998 and February 1, 1997. Net sales for 1997 were $15,668 million compared to $15,229 million for 1996, an increase of 2.9%. On a comparable store basis, net sales for 1997 increased 2.7% compared to 1996.

Cost of sales was 61.1% of net sales for 1997, compared to 61.4% for 1996. Cost of sales for 1996 included $65 million of infrequent inventory valuation adjustments related to merchandise in lines of business that were eliminated or replaced in connection with the consolidation of Broadway's merchandise inventories with the Company's merchandise inventories. Excluding these inventory valuation adjustments from 1996, cost of sales would have been 61.0% of net sales, with the 0.1% increase in 1997 being primarily due to higher merchandise markdowns associated with the elimination of certain consumer electronics lines of business. The valuation of merchandise inventory on the last-in, first-out basis did not impact cost of sales in either year.

Selling, general and administrative expenses were 30.3% of net sales for 1997, compared to 32.7% for 1996. Selling, general and administrative expenses for 1996 included $243 million of infrequent costs related to the integration and consolidation of acquired and pre-existing businesses. Excluding these infrequent costs, selling, general and administrative expenses would have been 31.1% of net sales for 1996. The major factor contributing to the 0.8% improvement in expense rate (excluding these infrequent costs for 1996) was lower

distribution-related expenses resulting from restructuring and technological improvements in the merchandise distribution process.

Selling, general and administrative expenses in 1997 reflect reduced finance charge income and lower expenses for doubtful customer accounts receivable. Finance charge income was $391 million for 1997, a decrease of $39 million compared to $430 million in 1996, primarily due to lower average accounts receivable balances. Amounts charged to expense for doubtful accounts receivable were $167 million for 1997, compared to $172 million for 1996. The decrease primarily reflects the lower levels of proprietary credit sales in 1997 compared to 1996.

Net interest expense was $383 million for 1997, compared to $452 million for 1996. The lower interest expense for 1997 is due to lower levels of borrowings and lower interest rates resulting from refinancings completed in 1997.

The Company's effective income tax rate of 40.0% for 1997 differs from the federal income tax statutory rate of 35.0% principally because of the effect of state and local income taxes and permanent differences arising from the amortization of intangible assets.

The extraordinary item of $39 million for 1997 represents the after-tax expenses associated with debt prepayments.

Liquidity and Capital Resources

The Company's principal sources of liquidity are cash from operations, cash on hand and certain available credit facilities.

Net cash provided by operating activities in 1998 was $1,690 million, an increase of $117 million from the net cash provided by operating activities in 1997 of $1,573 million. The major factor contributing to this improvement was stronger operating results.

Net cash used in investing activities was $445 million in 1998, with the final $200 million installment of a note receivable held by the Company being received on May 4, 1998, purchases of property and equipment totaling $695 million and dispositions of property and equipment totaling $50 million. During 1998, the Company opened five new department stores and closed four. On August 1, 1998, the Company completed the sale of its specialty stores division to a group including the division's management. The sale did not have a material impact on the Company's financial position or results of operations.

Net cash used by the Company for all financing activities was $1,080 million in 1998 compared to $1,262 million in 1997. In 1998, the Company issued $300 million of 7.0% Senior Debentures due 2028 and $350 million of 6⅛% Term Enhanced ReMarketable Securities due 2011, puttable to the Company in 2001. Also during the year, the Company renewed a portion of the bank credit agreement which provides a $500 million unsecured revolving credit facility with a termination date of July 26, 1999. As of January 30, 1999, the Company had $27 million of standby letters of credit and $42 million of trade letters of credit outstanding under this agreement. During 1998, the Company repaid borrowings totaling $1,229 million. The major components of debt repaid included $340 million of its 10% Senior Notes due 2001, the remaining $176 million of borrowings under a note monetization facility, $294 million of short-term debt refinanced at the end of 1997 and $375 million of receivables backed financings.

During 1998, the Board of Directors approved a stock repurchase program that authorizes the Company to purchase up to $1 billion of its common stock through January 29, 2000. Through January 30, 1999,

12.8 million shares of common stock at an approximate cost of $591 million had been acquired under the repurchase program.

In 1998, the $350 million aggregate principal amount of the Company's 5.0% Convertible Subordinated Notes due 2003 was converted into 10.2 million shares of common stock.

On March 18, 1999, the Company acquired Fingerhut Companies, Inc. ("Fingerhut") for a purchase price of $1,700 million, including $297 million of Fingerhut indebtedness. The Company funded the Fingerhut acquisition through a combination of cash on hand and short-term borrowings. On March 24, 1999, the Company issued $350 million of 6.3% Senior Notes due 2009 and $400 million of 6.9% Senior Debentures due 2029 and used the proceeds thereof to repay a portion of such short-term borrowings. The Fingerhut acquisition will be accounted for as a purchase.

The Company intends to open three new department stores in 1999 and its budgeted capital expenditures are approximately $2,800 million for the 1999 to 2001 period. Management presently anticipates funding such expenditures from operations.

Management believes the department store business will continue to consolidate. Accordingly, the Company intends from time to time to consider additional acquisitions of department store and other complementary assets and companies.

Management of the Company believes that, with respect to its current operations, cash on hand and funds from operations, together with its credit facilities, will be sufficient to cover its reasonably foreseeable working capital, capital expenditure and debt service requirements. Acquisition transactions, if any, are expected to be financed through a combination of cash on hand and from operations and the possible issuance from time to time of long-term debt or other securities. Depending upon conditions in the capital markets and other factors, the Company will from time to time consider the issuance of debt or other securities, or other possible capital markets transactions, the proceeds of which could be used to refinance current indebtedness or for other corporate purposes.

Year 2000

The Company relies on computer-based technology and utilizes a variety of third-party hardware and proprietary and third-party software. The Company's retail functions, such as merchandise procurement and distribution, inventory control, point-of-sale information systems and proprietary credit card account servicing, generally use proprietary software, with third-party software being used more extensively for administrative functions, such as accounting and human resource management. In addition to such information technology ("IT") systems, the Company's operations rely on various non-IT equipment and systems that contain embedded computer technology, such as elevators, escalators and energy management systems. Third parties with whom the Company has commercial relationships, including vendors of merchandise for resale by the Company and of products and services used by the Company in its operations (such as banking and financial services, data processing services, telecommunications services and utilities), are also highly reliant on computer-based technology.

In February 1996, the Company commenced an assessment of the potential effects of the Year 2000 issue on the Company's business, financial condition and results of operations. In conjunction with such assessment, the Company developed and commenced the implementation of the compliance program described below.

The Company's Year 2000 Compliance Program

Proprietary IT Systems. Pursuant to the Company's Year 2000 compliance program, the Company has undertaken an examination of the Company's proprietary IT systems. All such systems that have been identified as relating to a critical function and as not being Year 2000 compliant have been or are being remediated or replaced. The Company believes that the remediation of its proprietary IT systems is substantially complete, and nearly all of the proprietary IT systems that have been remediated have been installed and placed into production. The Company commenced testing of such remediated systems for Year 2000 compliance in August 1998 and has completed a comprehensive, integrated test of all of its main-frame and mid-range IT systems (including third-party and proprietary hardware, software, network components and interfaces). The Company is presently conducting varying levels of follow-up testing of selected systems.

Third-Party IT Systems. The strategy instituted by the Company to identify and address Year 2000 issues affecting third-party IT systems used by the Company includes contacting all third-party providers of computer hardware and software to secure appropriate representations to the effect that such hardware or software is or will timely be Year 2000 compliant. The Company has received Year 2000 compliant versions of almost all third-party software and is currently engaged in testing those third-party software programs that have been identified as being critical to the Company's operations. The Company is also developing contingency plans as to third-party hardware and software used by the Company in respect of which the Company has not received adequate compliance assurances to date.

Non-IT Systems. The Company has undertaken a review of its non-IT systems and is in the process of implementing a remediation program in respect of those systems that are within the control of the Company. The Company expects to complete this remediation effort by April 30, 1999. In addition, the Company's centralized real estate department has communicated to the developers, landlords and property managers of substantially all of the Company's properties the Company's expectation that the systems utilized in the management and operation of such properties that are not within the Company's control are or will timely be Year 2000 compliant. As a further step, the Company plans to engage in written or oral communications with its key developers, landlords and property managers in order to assess the Year 2000 readiness of their respective operations.

Non-IT Vendors and Suppliers. The Company procures its merchandise for resale and supplies for operational purposes from a vast network of vendors located both within and outside the United States, and is not dependent on any one vendor for more than 5% of its merchandise purchases. The Company procures its private label merchandise, which constitutes approximately 15% of the Company's total sales, principally from manufacturers located outside the United States. All of the Company's vendors have been notified in writing of the Company's expectation that the systems and operations of such vendors will be Year 2000 compliant before January 31, 1999. As a part of its contingency planning effort, the Company has commenced making inquiries as to the Year 2000 readiness of selected key vendors and private label manufacturers in order to identify any significant exposures that may exist and establish alternate sources or strategies where necessary. As of January 30, 1999, approximately 90% of the selected key vendors contacted had provided to the Company written or oral assurances that they are in the process of implementing compliance programs that are intended to address the Year 2000 issues affecting their respective operations.

Contingency Planning. The Company's Year 2000 compliance program is directed primarily towards ensuring that the Company will be able to continue to perform three critical functions: (i) effect sales, (ii) order and receive merchandise, and (iii) pay its employees. The Company is currently gathering data in an effort to assess the potential effects on these mission critical functions of a failure of the Company's Year

2000 compliance program to be fully effective and, to the extent deemed appropriate, to develop a contingency plan to address such effects. The Company expects to complete its contingency plan by July 31, 1999.

Costs. The Company has incurred to date approximately $26 million of costs to implement its Year 2000 compliance program and presently expects to incur approximately $46 million of costs in the aggregate, of which approximately 25% represents capitalized expenditures for hardware purchases. All of the Company's Year 2000 compliance costs have been or are expected to be funded from operating cash flows. The Company's Year 2000 compliance budget does not include material amounts for hardware replacement because the Company has historically employed a strategy to continually upgrade its main-frame and mid-range computer systems and to install state of the art point-of-sale systems with respect to both pre-existing operations and in conjunction with the acquisitions and mergers effected by the Company in recent years. Consequently, the Company's Year 2000 budget has not required the diversion of funds from or the postponement of the implementation of other planned IT projects.

Risks. The novelty and complexity of the issues presented and the proposed solutions therefor and the Company's dependence on the technical skills of employees and independent contractors and on the representations and preparedness of third parties are among the factors that could cause the Company's Year 2000 compliance efforts to be less than fully effective. Moreover, Year 2000 issues present a number of risks that are beyond the Company's reasonable control, such as the failure of utility companies to deliver electricity, the failure of telecommunications companies to provide voice and data services, the failure of financial institutions to process transactions and transfer funds, the failure of vendors to deliver merchandise or perform services required by the Company and the collateral effects on the Company of the effects of Year 2000 issues on the economy in general or on the Company's business partners and customers in particular. Although the Company believes that its Year 2000 compliance program is designed to appropriately identify and address those Year 2000 issues that are subject to the Company's reasonable control, there can be no assurance that the Company's efforts in this regard will be fully effective or that Year 2000 issues will not have a material adverse effect on the Company's business, financial condition or results of operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The Company is exposed to market risk from changes in interest rates which may adversely affect its financial position, results of operations and cash flows. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposures through its regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. The Company does not use financial instruments for trading or other speculative purposes and is not party to any leveraged financial instruments.

The Company is exposed to interest rate risk primarily through its borrowing activities, which are described in Note 7 to the Consolidated Financial Statements. The majority of the Company's borrowings are under fixed rate instruments. However, the Company uses interest rate swaps and interest rate caps to help manage its exposure to interest rate movements and reduce borrowing costs. See Notes 7 and 14 to the Consolidated Financial Statements, which are incorporated herein by reference.

Based on the Company's market risk sensitive instruments (including variable rate debt and derivative financial instruments) outstanding at January 30, 1999, the Company has determined that there was no material market risk exposure to the Company's consolidated financial position, results of operations or cash flows as of such date.

Item 8. Consolidated Financial Statements and Supplementary Data.

Information called for by this item is set forth in the Company's Consolidated Financial Statements and supplementary data contained in this report and is incorporated herein by this reference. Specific financial statements and supplementary data can be found at the pages listed in the following index.

INDEX

	Page
Management's Report	F-2
Independent Auditors' Report	F-3
Consolidated Statements of Income for the 52 weeks ended January 30, 1999, January 31, 1998 and February 1, 1997	F-4
Consolidated Balance Sheets at January 30, 1999 and January 31, 1998	F-5
Consolidated Statements of Changes in Shareholders' Equity for the 52 weeks ended January 30, 1999, January 31, 1998 and February 1, 1997	F-6
Consolidated Statements of Cash Flows for the 52 weeks ended January 30, 1999, January 31, 1998 and February 1, 1997	F-7
Notes to Consolidated Financial Statements	F-8

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Information called for by this item is set forth under Item 1, "Election of Directors" and "Compliance with Section 16(a) of the Securities and Exchange Act of 1934" in the Proxy Statement, and in Item 1A "Executive Officers of the Registrant," and incorporated herein by reference.

Item 11. Executive Compensation.

Information called for by this item is set forth under "Executive Compensation" and "Compensation Committee Report on Executive Compensation" in the Proxy Statement and incorporated herein by reference.

Item 12. Security Ownership and Certain Beneficial Owners and Management.

Information called for by this item is set forth under "Stock Ownership" in the Proxy Statement and incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

None.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) The following documents are filed as part of this report:

1. Financial Statements:

The list of financial statements required by this item is set forth in "Item 8 Consolidated Financial Statements and Supplementary Data" and is incorporated herein by reference.

2. Financial Statement Schedules:

All schedules are omitted because they are inapplicable, not required, or the information is included elsewhere in the Consolidated Financial Statements or the notes thereto.

3. Exhibits:

The following exhibits are filed herewith or incorporated by reference as indicated below.

Exhibit Number	Description	Document if Incorporated by Reference
3.1	Certificate of Incorporation	Exhibit 3.1 to the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 1995 (the "1994 Form 10-K")
3.1.1	Certificate of Designations of Series A Junior Participating Preferred Stock	Exhibit 3.1.1 to the 1994 Form 10-K
3.2	By-Laws	Exhibit 3.2 to the 1994 Form 10-K
4.1	Certificate of Incorporation	See Exhibit 3.1
4.2	By-Laws	See Exhibit 3.2
4.3	Rights Agreement, dated as of December 15, 1994, between the Company and the Bank of New York, as rights agent	Exhibit 4.3 to the 1994 Form 10-K
4.4	Indenture, dated as of December 15, 1994, between the Company and State Street Bank and Trust Company (successor to The First National Bank of Boston), as Trustee	Exhibit 4.1 to the Company's Registration Statement on Form S-3 (Registration No. 33-88328) filed on January 9, 1995 (the "S-3 Registration Statement")
4.4.1	Third Supplemental Indenture, dated as of January 23, 1995, between the Company and State Street Bank and Trust Company (successor to The First National Bank of Boston), as Trustee	Exhibit 4.4.1 to the 1994 Form 10-K

Exhibit Number	Description	Document if Incorporated by Reference
4.4.2	Fifth Supplemental Indenture, dated as of October 6, 1995, between the Company and State Street Bank and Trust Company (successor to The First National Bank of Boston), as Trustee	Exhibit 2 to the Company's Registration Statement on Form 8-A, dated October 4, 1995
4.4.3	Seventh Supplemental Indenture, dated as of May 22, 1996, between the Company and State Street Bank and Trust Company (successor to The First National Bank of Boston), as Trustee	Exhibit 4.2 to the Company's Quarterly Report on Form 10-Q for the period ended May 4, 1996 (the "May 1996 Form 10-Q")
4.4.4	Eighth Supplemental Indenture, dated as of July 14, 1997, between the Company and State Street Bank and Trust Company (successor to The First National Bank of Boston), as Trustee	Exhibit 2 to the Company's Current Report on Form 8-K dated as of July 15, 1997 (the "July 1997 Form 8-K")
4.4.5	Ninth Supplemental Indenture, dated as of July 14, 1997, between the Company and State Street Bank and Trust Company (successor to The First National Bank of Boston), as Trustee	Exhibit 3 to the July 1997 Form 8-K
4.5	Indenture, dated as of September 10, 1997, between the Company and Citibank, N.A., as Trustee	Exhibit 4.4 to the Company's Amendment Number 1 to Form S-3 dated as of September 11, 1997
4.5.1	First Supplemental Indenture, dated as of February 6, 1998, between the Company and Citibank, N.A., as Trustee	Exhibit 2 to the Company's Current Report on Form 8-K dated as of February 6, 1998
4.5.2	Second Supplemental Indenture, dated as of August 26, 1998, between the Company and Citibank, N.A., as Trustee	Exhibit 2 to the Company's Current Report on Form 8-K dated as of August 25, 1998
4.6	Amended and Restated Series B Warrant Agreement	Exhibit 4.6 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1998 (the "1997 Form 10-K")
4.7	Series C Warrant Agreement	Exhibit 4.6 to the 1994 Form 10-K
4.8	Series D Warrant Agreement	Exhibit 4.7 to the 1994 Form 10-K
4.9	Series E Warrant Agreement	Exhibit 4.9 to the 1995 Form 10-K
4.10	Warrant Agreement	Exhibit 4.1 to Broadway's Annual Report on Form 10-K (File No. 1-8765) for the fiscal year ended January 30, 1993 (the "Broadway 1992 Form 10-K")
4.10.1	Letter Agreement, dated October 11, 1995, between Broadway and The Bank of New York	Exhibit 4.5.1 to the October 1995 Form 10-Q

Exhibit Number	Description	Document if Incorporated by Reference
10.1	364-Day Credit Agreement, dated as of July 28, 1997, by and among the Company, the Initial Lenders named therein, Citibank, N.A., as Administrative Agent and Paying Agent, The Chase Manhattan Bank, as Administrative Agent, BankBoston, N.A., as Syndication Agent, and the Bank of America, National Trust & Savings Association, as Documentation Agent	Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended August 2, 1997 (the "August 1997 Form 10-Q")
10.1.1	Amended and Restated Credit Agreement, dated as of June 29, 1998, by and among the Company, the Initial Lenders named therein, Citibank, N.A., as Administrative Agent and Paying Agent, The Chase Manhattan Bank, as Administrative Agent, BankBoston, N.A., as Syndication Agent, and the Bank of America, National Trust & Savings Association, as Documentation Agent	Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended August 1, 1998 (the "August 1998 Form 10-Q")
10.2	Five-Year Credit Agreement, dated as of July 28, 1997, by and among the Company, the Initial Lenders named therein, Citibank, N.A., as Administrative Agent and Paying Agent, The Chase Manhattan Bank, as Administrative Agent, BankBoston, N.A., as Syndication Agent, and the Bank of America, National Trust & Savings Association, as Documentation Agent	Exhibit 10.2 to the August 1997 Form 10-Q
10.2.1	Letter Amendment to the Five-Year Credit Agreement, dated as of June 29, 1998, by and among the Company, the Initial Lenders named therein, Citibank, N.A., as Administrative Agent and Paying Agent, The Chase Manhattan Bank, as Administrative Agent, BankBoston, N.A., as Syndication Agent, and the Bank of America, National Trust & Savings Association, as Documentation Agent	Exhibit 10.2 to the August 1998 Form 10-Q
10.3	Loan Agreement, dated as of May 26, 1994 (the "Lazarus PA Mortgage Term Loan"), among Lazarus PA, Inc. (formerly Joseph Horne Co., Inc.), the banks listed thereon, and PNC Bank, Ohio, National Association, as Agent ("PNC")	Exhibit 10.47 to the 1994 S-4 Registration Statement

Exhibit Number	Description	Document if Incorporated by Reference
10.3.1	First Amendment to the Lazarus PA Mortgage Term Loan dated as of December 6, 1995	Exhibit 10.6 to the October 1995 Form 10-Q
10.3.2	Second Amendment to the Lazarus PA Mortgage Term Loan dated as of July 28, 1997	Exhibit 10.3.2 to the 1997 Form 10-K
10.4	Guaranty Agreement, dated as of May 26, 1994, made by the Company in favor of the banks listed on the Lazarus PA Mortgage Term Loan and PNC	Exhibit 10.48 to the 1994 S-4 Registration Statement
10.4.1	Amendment #1 to Guaranty Agreement, dated as of February 28, 1995, made by the Company in favor of the banks listed on the Lazarus PA Mortgage Term Loan and PNC	Exhibit 10.7.1 to the 1994 Form 10-K
10.5	Amended and Restated Pooling and Servicing Agreement, dated as of December 15, 1992 (the "Pooling and Servicing Agreement"), among the Company, Prime Receivables Corporation ("Prime") and The Chase Manhattan Bank, successor to Chemical Bank, as Trustee	Exhibit 4.10 to Prime's Current Report on Form 8-K (File No. 0-2118), dated March 29, 1993
10.5.1	First Amendment, dated as of December 1, 1993, to the Pooling and Servicing Agreement	Exhibit 10.10.1 to the Company's Annual Report on Form 10-K (File No. 1-10951) for the fiscal year ended January 29, 1994 (the "1993 Form 10-K")
10.5.2	Second Amendment, dated as of February 28, 1994, to the Pooling and Servicing Agreement	Exhibit 10.10.2 to the 1993 Form 10-K
10.5.3	Third Amendment, dated as of May 31, 1994, to the Pooling and Servicing Agreement	Exhibit 10.8.3 to the 1994 Form 10-K
10.5.4	Fourth Amendment, dated as of January 18, 1995, to the Pooling and Servicing Agreement	Exhibit 10.6.4 to the 1995 Form 10-K
10.5.5	Fifth Amendment, dated as of April 30, 1995, to the Pooling and Servicing Agreement	Exhibit 10.6.5 to the 1995 Form 10-K
10.5.6	Sixth Amendment, dated as of July 27, 1995, to the Pooling and Servicing Agreement	Exhibit 10.6.6 to the 1995 Form 10-K
10.5.7	Seventh Amendment, dated as of May 14, 1996, to the Pooling and Servicing Agreement	Exhibit 10.6.7 to the 1996 Form 10-K

Exhibit Number	Description	Document if Incorporated by Reference
10.5.8	Eighth Amendment, dated as of March 3, 1997, to the Pooling and Servicing Agreement	Exhibit 10.6.8 to the 1996 Form 10-K
10.5.9	Ninth Amendment, dated as of August 28, 1997, to the Pooling and Servicing Agreement	Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended November 1, 1997 (the "November 1997 Form 10-Q")
10.5.10	Tenth Amendment, dated as of August 3, 1998, to the Pooling and Servicing Agreement	Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended October 31, 1998 (the "October 1998 Form 10-Q")
10.6	Assumption Agreement under the Pooling and Servicing Agreement, dated as of September 15, 1993	Exhibit 10.10.3 to the 1993 Form 10-K
10.7	Series 1992-2 Supplement, dated as of December 15, 1992, to the Pooling and Servicing Agreement	Exhibit 4.7 to Prime's Form 8-A
10.7.1	First Amendment to Series 1992-2 Supplement, dated as of August 28, 1997, to the Pooling and Servicing Agreement	Exhibit 10.3 to the November 1997 Form 10-Q
10.8	Series 1992-3 Supplement, dated as of January 5, 1993, to the Pooling and Servicing Agreement	Exhibit 4.8 to Prime's Current Report on Form 8-K (File No. 0-2118), dated January 29, 1993
10.9	Series 1995-1 Supplement, dated as of July 27, 1995, to the Pooling and Servicing Agreement	Exhibit 4.7 to Prime's Registration Statement on Form S-1, filed July 14, 1995, as amended
10.9.1	First Amendment to Series 1995-1 Supplement, dated as of August 28, 1997, to the Pooling and Servicing Agreement	Exhibit 10.4 to the November 1997 Form 10-Q
10.10	Series 1996-1 Supplement, dated as of May 14, 1996, to the Pooling and Servicing Agreement	Exhibit 4 to the May 1996 Prime 8-K
10.10.1	First Amendment to Series 1996-1 Supplement, dated as of August 28, 1997, to the Pooling and Servicing Agreement	Exhibit 10.5 to the November 1997 Form 10-Q
10.11	Receivables Purchase Agreement, dated as of December 15, 1992 (the "Receivables Purchase Agreement"), among Abraham & Straus, Inc., Bloomingdale's, Inc., Burdines, Inc., Jordan Marsh Stores Corporation, Lazarus, Inc., Rich's Department Stores, Inc., Stern's Department Stores, Inc., The Bon, Inc. and Prime	Exhibit 10.2 to Prime's Form 8-A

Exhibit Number	Description	Document if Incorporated by Reference
10.11.1	First Amendment, dated as of June 23, 1993, to the Receivables Purchase Agreement	Exhibit 10.14.1 to 1993 Form 10-K
10.11.2	Second Amendment, dated as of December 1, 1993, to the Receivables Purchase Agreement	Exhibit 10.14.2 to 1993 Form 10-K
10.11.3	Third Amendment, dated as of February 28, 1994, to the Receivables Purchase Agreement	Exhibit 10.14.3 to 1993 Form 10-K
10.11.4	Fourth Amendment, dated as of May 31, 1994, to the Receivables Purchase Agreement	Exhibit 10.13.4 to the 1994 Form 10-K
10.11.5	Fifth Amendment, dated as of April 30, 1995, to the Receivables Purchase Agreement	Exhibit 10.12.5 to the 1995 Form 10-K
10.11.6	Sixth Amendment, dated as of August 26, 1995, to the Receivables Purchase Agreement	Exhibit 10.13.6 to the 1996 Form 10-K
10.11.7	Seventh Amendment, dated as of August 26, 1995, to the Receivables Purchase Agreement	Exhibit 10.13.7 to the 1996 Form 10-K
10.11.8	Eighth Amendment, dated as of May 14, 1996, to the Receivables Purchase Agreement	Exhibit 10.13.8 to the 1996 Form 10-K
10.11.9	Ninth Amendment, dated as of March 3, 1997, to the Receivables Purchase Agreement.	Exhibit 10.13.9 to the 1996 Form 10-K
10.11.10	First Supplement, dated as of September 15, 1993, to the Receivables Purchase Agreement	Exhibit 10.14.4 to 1993 Form 10-K
10.11.11	Second Supplement, dated as of May 31, 1994, to the Receivables Purchase Agreement	Exhibit 10.12.7 to the 1995 Form 10-K
10.12	Depository Agreement, dated as of December 31, 1992, among Deerfield Funding Corporation, now known as Seven Hills Funding Corporation ("Seven Hills"), the Company, and The Chase Manhattan Bank, as Depository	Exhibit 10.15 to Company's Annual Report on Form 10-K (File No. 1-10951) for the fiscal year ended January 30, 1993 ("1992 Form 10-K")
10.13	Liquidity Agreement, dated as of December 31, 1992, among Seven Hills, the Company, the financial institutions named therein, and Credit Suisse, New York Branch, as Liquidity Agent	Exhibit 10.16 to 1992 Form 10-K

Exhibit Number	Description	Document if Incorporated by Reference
10.14	Pledge and Security Agreement, dated as of December 31, 1992, among Seven Hills, the Company, The Chase Manhattan Bank, as Depository and Collateral Agent, and the Liquidity Agent	Exhibit 10.17 to 1992 Form 10-K
10.15	Commercial Paper Dealer Agreement, dated as of December 31, 1992, among Seven Hills, the Company, and Goldman Sachs Money Markets, L.P.	Exhibit 10.18 to 1992 Form 10-K
10.16	Commercial Paper Dealer Agreement, dated as of December 31, 1992, among Seven Hills, the Company, and Shearson Lehman Brothers, Inc.	Exhibit 10.19 to 1992 Form 10-K
10.17	Receivables Purchase Agreement, dated as of January 22, 1997, among FDS National Bank and Prime II Receivables Corporation ("Prime II")	Exhibit 10.19 to the 1996 Form 10-K
10.18	Class A Certificate Purchase Agreement, dated as of January 22, 1997, among Prime II, FDS National Bank, The Class A Purchasers Parties thereto and Credit Suisse First Boston, New York Branch, as Agent	Exhibit 10.20 to the 1996 Form 10-K
10.19	Class B Certificate Purchase Agreement, dated as of January 22, 1997, among Prime II, FDS National Bank, The Class B Purchasers Parties thereto and Credit Suisse First Boston, New York Branch, as Agent	Exhibit 10.21 to the 1996 Form 10-K
10.20	Pooling and Servicing Agreement, dated as of January 22, 1997, (the "Prime II Pooling and Servicing Agreement") among Prime II, FDS National Bank and The Chase Manhattan Bank, as Trustee	Exhibit 10.22 to the 1996 Form 10-K
10.21	Series 1997-1 Supplement, dated as of January 22, 1997, to the Prime II Pooling and Servicing Agreement	Exhibit 10.23 to the 1996 Form 10-K
10.22	Commercial Paper Dealer Agreement, dated as of January 30, 1997, between the Company and Citicorp Securities, Inc.	Exhibit 10.24 to the 1996 Form 10-K
10.23	Commercial Paper Issuing and Paying Agent Agreement, dated as of January 30, 1997, between Citibank, N.A. and the Company	Exhibit 10.25 to the 1996 Form 10-K

Exhibit Number	Description	Document if Incorporated by Reference
10.24	Commercial Paper Dealer Agreement, dated as of January 30, 1997, between the Company and Lehman Brothers, Inc.	Exhibit 10.26 to the 1996 Form 10-K
10.25	Tax Sharing Agreement	Exhibit 10.10 to Form 10
10.26	Ralphs Tax Indemnification Agreement	Exhibit 10.1 to Form 10
10.27	Account Purchase Agreement dated as of May 10, 1991, by and among Monogram Bank, USA, Macy's, Macy Credit Corporation, Macy Funding, Macy's California, Inc., Macy's Northeast, Inc., Macy's South, Inc., Bullock's Inc., I. Magnin, Inc., Master Servicer, and Macy Specialty Stores, Inc. **	Exhibit 19.2 to Macy's Quarterly Report on Form 10-Q for the fiscal quarter ended May 4, 1991 (File No. 33-6192), as amended under cover of Form 8, dated October 3, 1991 ("Macy's May 1991 Form 10-Q")
10.28	Amended and Restated Credit Card Program Agreement, dated as of June 4, 1996, among GE Capital Consumer Card Co. ("GE Bank"), FDS National Bank, Macy's East, Inc., Macy's West, Inc., Bullock's, Inc., Broadway Stores, Inc., FACS Group, Inc., and MSS-Delaware, Inc. **	Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended August 3, 1996 (the "August 1996 Form 10-Q")
10.29	Amended and Restated Trade Name and Service Mark License Agreement, dated as of June 4, 1996, among the Company, GE Bank and General Electric Capital Corporation ("GE Capital")	Exhibit 10.2 to the August 1996 Form 10-Q
10.30	FACS Credit Services and License Agreement, dated as of June 4, 1996, by and among GE Bank, GE Capital and FACS Group, Inc. **	Exhibit 10.3 to the August 1996 Form 10-Q
10.31	FDS Guaranty, dated as of June 4, 1996	Exhibit 10.4 to the August 1996 Form 10-Q
10.32	GE Capital Credit Services and License Agreement, dated as of June 4, 1996, among GE Capital, FDS National Bank, the Company and FACS Group, Inc. **	Exhibit 10.5 to the August 1996 Form 10-Q
10.33	GE Capital/GE Bank Credit Services Agreement, dated as of June 4, 1996, among GE Capital and GE Bank **	Exhibit 10.6 to the August 1996 Form 10-Q

Exhibit Number	Description	Document if Incorporated by Reference
10.34	Amended and Restated Commercial Accounts Agreement, dated as of June 4, 1996, among GE Capital, the Company, FDS National Bank, Macy's East, Inc., Macy's West, Inc., Bullock's, Inc., Broadway Stores, Inc., FACS Group, Inc. and MSS-Delaware, Inc. **	Exhibit 10.7 to the August 1996 Form 10-Q
10.35	1992 Executive Equity Incentive Plan *	Exhibit 10.12 to Form 10
10.36	1995 Executive Equity Incentive Plan, as amended and restated as of May 16, 1997 *	Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended May 3, 1997
10.37	1992 Incentive Bonus Plan, as amended and restated as of December 12, 1997 *	Exhibit 10.37 to the 1997 Form 10-K
10.38	Form of Severance Agreement *	Exhibit 10.33 to the 1994 Form 10-K
10.39	Form of Indemnification Agreement *	Exhibit 10.14 to Form 10
10.40	Senior Executive Medical Plan *	Exhibit 10.17 to 1989 Form 10-K
10.41	Employment Agreement, dated as of March 10, 1997, between James M. Zimmerman and the Company *	Exhibit 10.44 to the 1996 Form 10-K
10.42	Employment Agreement, dated as of May 16, 1997, between Terry J. Lundgren and the Company *	Exhibit 10.43 to the 1997 Form 10-K
10.43	Form of Employment Agreement for Executives and Key Employees *	Exhibit 10.31 to 1993 Form 10-K
10.44	Form of Severance Agreement (for Executives and Key Employees other than the Executive Officers)	
10.45	Form of Second Amended and Restated Severance Agreement (for the Executive Officers)	
10.46	Supplementary Executive Retirement Plan, as amended and restated as of January 1, 1997 *	Exhibit 10.46 to the 1996 Form 10-K
10.47	Executive Deferred Compensation Plan, as amended *	Exhibit 10.47 to the 1996 Form 10-K
10.48	Profit Sharing 401(k) Investment Plan (amending and restating the Retirement Income and Thrift Incentive Plan) effective as of April 1, 1997 *	Exhibit 10.48 to the 1996 Form 10-K
10.49	Cash Account Pension Plan (amending and restating the Company Pension Plan) effective as of January 1, 1997 *	Exhibit 10.49 to the 1996 Form 10-K
21	Subsidiaries	

Exhibit Number	Description	Document if Incorporated by Reference
22	Consent of KPMG LLP	
23	Powers of Attorney	
27	Financial Data Schedule	

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* Constitutes a compensatory plan or arrangement.

** Confidential portions of this Exhibit were omitted and filed separately with the SEC pursuant to Rule 24b-2 under the Exchange Act.

(b) Reports on Form 8-K. Current report on Form 8-K, dated December 3, 1998, reporting matters under items 5 and 7 thereof.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FEDERATED DEPARTMENT STORES, INC.

By: /s/ DENNIS J. BRODERICK
Dennis J. Broderick
Senior Vice President, General Counsel and Secretary

Date: April 21, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on April 21, 1999.

Signature	Title
* James M. Zimmerman	Chairman of the Board and Chief Executive Officer (principal executive officer) and Director
* Terry J. Lundgren	President and Chief Merchandising Officer and Director
* Ronald W. Tysoe	Vice Chairman, Finance and Real Estate and Director
* Karen M. Hoguet	Senior Vice President, Chief Financial Officer and Treasurer
* Joel A. Belsky	Vice President and Controller (principal accounting officer)
* Meyer Feldberg	Director
* Earl G. Graves, Sr.	Director
* George V. Grune	Director
* Sara Levinson	Director
* Joseph Neubauer	Director
* Joseph A. Pichler	Director
* Karl M. von der Heyden	Director
* Craig E. Weatherup	Director
* Marna C. Whittington	Director

* The undersigned, by signing his name hereto, does sign and execute this Annual Report on Form 10-K pursuant to the Powers of Attorney executed by the above-named officers and directors and filed herewith.

By: /s/ DENNIS J. BRODERICK
Dennis J. Broderick
Attorney-in-Fact

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Management's Report	F-2
Independent Auditors' Report	F-3
Consolidated Statements of Income for the 52 weeks ended January 30, 1999, January 31, 1998 and February 1, 1997	F-4
Consolidated Balance Sheets at January 30, 1999 and January 31, 1998	F-5
Consolidated Statements of Changes in Shareholders' Equity for the 52 weeks ended January 30, 1999, January 31, 1998 and February 1, 1997	F-6
Consolidated Statements of Cash Flows for the 52 weeks ended January 30, 1999, January 31, 1998 and February 1, 1997	F-7
Notes to Consolidated Financial Statements	F-8

MANAGEMENT'S REPORT

To the Shareholders of
Federated Department Stores, Inc.:

The integrity and consistency of the consolidated financial statements of Federated Department Stores, Inc. and subsidiaries, which were prepared in accordance with generally accepted accounting principles, are the responsibility of management and properly include some amounts that are based upon estimates and judgments.

The Company maintains a system of internal accounting controls, which is supported by a program of internal audits with appropriate management follow-up action, to provide reasonable assurance, at appropriate cost, that the Company's assets are protected and transactions are properly recorded. Additionally, the integrity of the financial accounting system is based on careful selection and training of qualified personnel, organizational arrangements which provide for appropriate division of responsibilities and communication of established written policies and procedures.

The consolidated financial statements of the Company have been audited by KPMG LLP, independent certified public accountants. Their report expresses their opinion as to the fair presentation, in all material respects, of the financial statements and is based upon their independent audits conducted in accordance with generally accepted auditing standards.

The Audit Review Committee, composed solely of outside directors, meets periodically with the independent certified public accountants, the internal auditors and representatives of management to discuss auditing and financial reporting matters. In addition, the independent certified public accountants and the Company's internal auditors meet periodically with the Audit Review Committee without management representatives present and have free access to the Audit Review Committee at any time. The Audit Review Committee is responsible for recommending to the Board of Directors the engagement of the independent certified public accountants, which is subject to shareholder approval, and the general oversight review of management's discharge of its responsibilities with respect to the matters referred to above.

James M. Zimmerman
Chairman and Chief Executive Officer

Karen M. Hoguet
Senior Vice President, Chief Financial Officer and Treasurer

Joel A. Belsky
Vice President and Controller

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Federated Department Stores, Inc.:

We have audited the accompanying consolidated balance sheets of Federated Department Stores, Inc. and subsidiaries as of January 30, 1999 and January 31, 1998, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the fifty-two week periods ended January 30, 1999, January 31, 1998 and February 1, 1997. These consolidated financial statements are the responsibility of management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Federated Department Stores, Inc. and subsidiaries as of January 30, 1999 and January 31, 1998, and the results of their operations and their cash flows for the fifty-two week periods ended January 30, 1999, January 31, 1998 and February 1, 1997, in conformity with generally accepted accounting principles.

KPMG LLP

Cincinnati, Ohio
March 2, 1999

FEDERATED DEPARTMENT STORES, INC.

CONSOLIDATED STATEMENTS OF INCOME

(millions, except per share data)

	52 Weeks Ended January 30, 1999	52 Weeks Ended January 31, 1998	52 Weeks Ended February 1, 1997
Net sales, including leased department sales	$15,833	$15,668	$15,229
Cost of sales	9,616	9,581	9,354
Selling, general and administrative expenses	4,762	4,746	4,982
Operating income	1,455	1,341	893
Interest expense	(304)	(418)	(499)
Interest income	12	35	47
Income before income taxes and extraordinary items	1,163	958	441
Federal, state and local income tax expense	(478)	(383)	(175)
Income before extraordinary items	685	575	266
Extraordinary items	(23)	(39)	—
Net income	$ 662	$ 536	$ 266
Basic earnings per share:			
Income before extraordinary items	$ 3.27	$ 2.74	$ 1.28
Extraordinary items	(.11)	(.18)	—
Net income	$ 3.16	$ 2.56	$ 1.28
Diluted earnings per share:			
Income before extraordinary items	$ 3.06	$ 2.58	$ 1.24
Extraordinary items	(.10)	(.17)	—
Net income	$ 2.96	$ 2.41	$ 1.24

The accompanying notes are an integral part of these Consolidated Financial Statements.

FEDERATED DEPARTMENT STORES, INC.

CONSOLIDATED BALANCE SHEETS

(millions)

	January 30, 1999	January 31, 1998
ASSETS		
Current Assets:		
Cash	$ 307	$ 142
Accounts receivable	2,209	2,640
Merchandise inventories	3,259	3,239
Supplies and prepaid expenses	117	115
Deferred income tax assets	80	58
Total Current Assets	5,972	6,194
Property and Equipment – net	6,572	6,520
Intangible Assets – net	631	690
Other Assets	289	334
Total Assets	$13,464	$13,738
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	$ 524	$ 556
Accounts payable and accrued liabilities	2,446	2,416
Income taxes	98	88
Total Current Liabilities	3,068	3,060
Long-Term Debt	3,057	3,919
Deferred Income Taxes	1,060	939
Other Liabilities	570	564
Shareholders' Equity	5,709	5,256
Total Liabilities and Shareholders' Equity	$13,464	$13,738

The accompanying notes are an integral part of these Consolidated Financial Statements.

FEDERATED DEPARTMENT STORES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(millions)

	Common Stock	Additional Paid-In Capital	Accumulated Equity	Treasury Stock	Unearned Restricted Stock	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at February 3, 1996	$2	$4,269	$ 568	$(562)	$(3)	$ –	$4,274
Net Income			266				266
Total comprehensive income							266
Stock issued under stock plans		125		(4)			121
Restricted stock plan amortization					2		2
Income tax benefit related to stock plan activity		6					6
Balance at February 1, 1997	2	4,400	834	(566)	(1)	–	4,669
Net Income			536				536
Minimum pension liability adjustment, net of income tax effect						(3)	(3)
Total comprehensive income							533
Stock issued under stock plans		46		(7)	(1)		38
Deferred compensation plan distributions				1			1
Income tax benefit related to stock plan activity		15					15
Balance at January 31, 1998	2	4,461	1,370	(572)	(2)	(3)	5,256
Net Income			662				662
Minimum pension liability adjustment, net of income tax effect						(7)	(7)
Total comprehensive income							655
Stock repurchases				(591)			(591)
Stock issued under stock plans		36		(6)			30
Deferred compensation plan distributions				1			1
Restricted stock plan amortization					1		1
Income tax benefit related to stock plan activity		13					13
Stock issued in conversion of subordinated notes		(104)		448			344
Balance at January 30, 1999	$2	$4,406	$2,032	$(720)	$(1)	$(10)	$5,709

The accompanying notes are an integral part of these Consolidated Financial Statements.

FEDERATED DEPARTMENT STORES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions)

	52 Weeks Ended January 30, 1999	52 Weeks Ended January 31, 1998	52 Weeks Ended February 1, 1997
Cash flows from operating activities:			
Net income	$ 662	$ 536	$ 266
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property and equipment	596	563	504
Amortization of intangible assets	27	27	27
Amortization of financing costs	7	20	27
Amortization of unearned restricted stock	1	–	2
Loss on early extinguishment of debt	23	39	–
Changes in assets and liabilities:			
Decrease in accounts receivable	235	194	223
(Increase) decrease in merchandise inventories	(20)	7	(151)
(Increase) decrease in supplies and prepaid expenses	(2)	(5)	67
(Increase) decrease in other assets not separately identified	31	(7)	(12)
Increase (decrease) in accounts payable and accrued liabilities not separately identified	6	(36)	177
Increase in current income taxes	25	103	2
Increase in deferred income taxes	103	138	84
Increase (decrease) in other liabilities not separately identified	(4)	(6)	4
Net cash provided by operating activities	1,690	1,573	1,220
Cash flows from investing activities:			
Purchase of property and equipment	(695)	(696)	(846)
Disposition of property and equipment	50	178	196
Collection of note receivable	200	200	–
Net cash used by investing activities	(445)	(318)	(650)
Cash flows from financing activities:			
Debt issued	650	763	689
Financing costs	–	(7)	(11)
Debt repaid	(1,229)	(2,027)	(1,335)
Increase (decrease) in outstanding checks	47	(45)	(65)
Acquisition of treasury stock	(594)	(2)	(1)
Issuance of common stock	46	56	129
Net cash used by financing activities	(1,080)	(1,262)	(594)
Net increase (decrease) in cash	165	(7)	(24)
Cash beginning of period	142	149	173
Cash end of period	$ 307	$ 142	$ 149
Supplemental cash flow information:			
Interest paid	$ 306	$ 412	$ 465
Interest received	15	38	46
Income taxes paid (net of refunds received)	304	121	21

The accompanying notes are an integral part of these Consolidated Financial Statements.

1. Organization and Summary of Significant Accounting Policies

Federated Department Stores, Inc. (the "Company") is a retail organization operating department stores that sell a wide range of merchandise, including women's, men's and children's apparel, cosmetics, home furnishings and other consumer goods.

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions have been eliminated. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions are subject to inherent uncertainties, which may result in actual amounts differing from reported amounts.

Cash includes cash and liquid investments with original maturities of three months or less.

Installments of deferred payment accounts receivable maturing after one year are included in current assets in accordance with industry practice. Such accounts are accepted on customary revolving credit terms and offer the customer the option of paying the entire balance on a 25-day basis without incurring finance charges. Alternatively, customers may make scheduled minimum payments and incur competitive finance charges. Minimum payments vary from 2.5% to 100.0% of the account balance, depending on the size of the balance. Profits on installment sales are included in income when the sales are made. Finance charge income is treated as a reduction of selling, general and administrative expenses.

Substantially all merchandise inventories are valued by the retail method and stated on the LIFO (last-in, first-out) basis, which is generally lower than market.

Depreciation and amortization are provided primarily on a straight-line basis over the shorter of estimated asset lives or related lease terms. Estimated asset lives range from 15 to 50 years for buildings and building equipment and 3 to 15 years for store fixtures and equipment. Real estate taxes and interest on construction in progress and land under development are capitalized. Amounts capitalized are amortized over the estimated lives of the related depreciable assets. The carrying value of property and equipment is periodically reviewed and adjusted appropriately by the Company whenever events or changes in circumstances indicate that the estimated fair value is less than the carrying amount.

Intangible assets are amortized on a straight-line basis over their estimated lives (see Note 6). The carrying value of intangible assets is periodically reviewed by the Company and impairments are recognized when the present value of the expected future operating cash flows derived from such intangible assets is less than their carrying value.

Advertising and promotional costs, which are generally expensed as incurred, amounted to $739 million, $680 million and $618 million for the 52 weeks ended January 30, 1999, January 31, 1998 and February 1, 1997, respectively.

Financing costs are amortized over the life of the related debt.

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and net operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The cost of postretirement benefits other than pensions is recognized in the financial statements over an employee's term of service with the Company.

The Company accounts for its stock-based employee compensation plan in accordance with Accounting Principles Board Opinion No. 25 and related interpretations (see Note 12).

Earnings per share are computed in accordance with Statement of Financial Accounting Standards (SFAS) No. 128 "Earnings Per Share" (see Note 15).

Effective February 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income," SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" and SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." The adoption of these statements did not impact the Company's consolidated financial position, results of operation or cash flows and, where applicable, are limited to the form and content of their disclosures.

Certain reclassifications were made to prior years' amounts to conform with the classifications of such amounts for the most recent year.

In 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activity" which is effective for fiscal years beginning after June 15, 1999. This statement establishes accounting and reporting standards for derivative instruments and hedging activities and requires recognition of all derivatives as either assets or liabilities on the balance sheet using fair value measurement. The accounting for changes in the fair value of derivatives depends on the intended use of the derivatives and the resulting hedging designation, if any. The Company is currently reviewing the impact of this statement; however, based on the Company's minimal use of derivatives, management does not anticipate that its adoption will have a material impact on the Company's consolidated financial position, results of operations or cash flows.

2. Extraordinary Items

The extraordinary item for the 52 weeks ended January 30, 1999 represents costs of $23 million, net of income tax benefit of $15 million, associated with the completion of a tender offer pursuant to which the Company purchased and retired approximately $340 million aggregate principal amount of its 10% Senior Notes due 2001.

The extraordinary item for the 52 weeks ended January 31, 1998 represents costs of $39 million, net of income tax benefit of $25 million, associated with the prepayment of all amounts outstanding under the

Company's mortgage loan facility, secured promissory note, certain other mortgages and previous bank credit facility, all of which were retired and terminated.

3. Accounts Receivable

	January 30, 1999	January 31, 1998
	(millions)	
Due from customers	$2,099	$2,322
Less allowance for doubtful accounts	77	100
	2,022	2,222
Other receivables	187	418
Net receivables	$2,209	$2,640

Sales through the Company's credit plans were $4,028 million, $4,002 million and $4,191 million for the 52 weeks ended January 30, 1999, January 31, 1998 and February 1, 1997, respectively. The credit plans relating to certain operations of the Company are owned by a third party. Other receivables at January 31, 1998 includes $200 million of a note relating to the sale of certain divisions in 1988.

Finance charge income amounted to $345 million, $391 million and $430 million for the 52 weeks ended January 30, 1999, January 31, 1998 and February 1, 1997, respectively.

Changes in allowance for doubtful accounts are as follows:

	52 Weeks Ended January 30, 1999	52 Weeks Ended January 31, 1998	52 Weeks Ended February 1, 1997
		(millions)	
Balance, beginning of year	$ 100	$ 96	$ 83
Charged to costs and expenses	112	167	172
Net uncollectible balances written off	(135)	(163)	(159)
Balance, end of year	$ 77	$ 100	$ 96

4. Inventories

Merchandise inventories were $3,259 million at January 30, 1999, compared to $3,239 million at January 31, 1998. At these dates, the cost of inventories using the LIFO method approximated the cost of such inventories using the first-in, first-out method. The application of the LIFO method did not impact cost of sales for the 52 weeks ended January 30, 1999, January 31, 1998 or February 1, 1997.

5. Properties and Leases

	January 30, 1999	January 31, 1998
	(millions)	
Land	$1,018	$1,019
Buildings on owned land	2,399	2,314
Buildings on leased land and leasehold improvements	1,552	1,552
Store fixtures and equipment	3,713	3,305
Leased properties under capitalized leases	73	76
	8,755	8,266
Less accumulated depreciation and amortization	2,183	1,746
	$6,572	$6,520

In connection with various shopping center agreements, the Company is obligated to operate certain stores within the centers for periods of up to 20 years. Some of these agreements require that the stores be operated under a particular name.

The Company leases a portion of the real estate and personal property used in its operations. Most leases require the Company to pay real estate taxes, maintenance and other executory costs; some also require additional payments based on percentages of sales and some contain purchase options.

Minimum rental commitments (excluding executory costs) at January 30, 1999, for noncancellable leases are:

	Capitalized Leases	Operating Leases	Total
		(millions)	
Fiscal year:			
1999	$13	$ 145	$ 158
2000	12	143	155
2001	12	136	148
2002	10	125	135
2003	9	114	123
After 2003	64	921	985
Total minimum lease payments	120	$1,584	$1,704
Less amount representing interest	54		
Present value of net minimum capitalized lease payments	$66		

Capitalized leases are included in the Consolidated Balance Sheets as property and equipment while the related obligation is included in short-term ($6 million) and long-term ($60 million) debt. Amortization of assets subject to capitalized leases is included in depreciation and amortization expense. Total minimum lease

payments shown above have not been reduced by minimum sublease rentals of approximately $6 million on capitalized leases and $12 million on operating leases.

Rental expense consists of:

	52 Weeks Ended January 30, 1999	52 Weeks Ended January 31, 1998	52 Weeks Ended February 1, 1997
	(millions)		
Real estate (excluding executory costs)			
Capitalized leases –			
Contingent rentals	$ 3	$ 4	$ 4
Operating leases –			
Minimum rentals	144	149	151
Contingent rentals	21	23	21
	168	176	176
Less income from subleases –			
Capitalized leases	1	1	1
Operating leases	3	3	3
	4	4	4
	$164	$172	$172
Personal property – Operating leases	$ 22	$ 37	$ 60

6. Intangible Assets

	January 30, 1999	January 31, 1998
	(millions)	
Reorganization value in excess of amount allocable to identifiable assets	$100	$100
Excess of cost over net assets acquired	262	294
Tradenames	458	458
	820	852
Less accumulated amortization	189	162
Intangible assets – net	$631	$690

Intangible assets are being amortized on a straight-line basis over 20 years, except for tradenames which are being amortized over 40 years. The Company recorded $32 million of tax benefits as a reduction to excess of cost over net assets acquired during the 52 weeks ended January 30, 1999 (see Note 9).

7. Financing

	January 30, 1999	January 31, 1998
	(millions)	
Short-term debt:		
Receivables backed financings	$ 490	$ 375
Current portion of long-term debt	34	5
Note monetization facility	–	176
Total short-term debt	$ 524	$ 556
Long-term debt:		
Receivables backed financings	$ 836	$1,326
8.5% Senior notes due 2003	450	450
8.125% Senior notes due 2002	400	400
6.125% Term Enhanced ReMarketable Securities due 2011	350	–
7.45% Senior debentures due 2017	300	300
7.0% Senior debentures due 2028	300	294
6.79% Senior debentures due 2027	250	250
10.0% Senior notes due 2001	110	450
Capital lease obligations and mortgages	61	99
5.0% Convertible subordinated notes due 2003	–	350
Total long-term debt	$3,057	$3,919

Interest expense was as follows:

	52 Weeks Ended January 30, 1999	52 Weeks Ended January 31, 1998	52 Weeks Ended February 1, 1997
		(millions)	
Interest on debt	$293	$392	$464
Amortization of financing costs	7	20	27
Interest on capitalized leases	7	8	9
Subtotal	307	420	500
Less interest capitalized on construction	(3)	(2)	(1)
	$304	$418	$499

Future maturities of long-term debt, other than capitalized leases and including unamortized original issue discount of $1 million, are shown below:

	(millions)
Fiscal year:	
2000	$ –
2001	699
2002	998
2003	450
2004	250
After 2004	600

On February 6, 1998, the Company issued $300 million of 7.0% Senior Debentures due 2028. On August 26, 1998, the Company issued $350 million of 6⅛% Term Enhanced ReMarketable Securities (TERMS) due in 2011, puttable to the Company in 2001. Also during the 52 weeks ended January 30, 1999, the Company renewed a portion of the bank credit agreement which provides a $500 million unsecured revolving credit facility with a termination date of July 26, 1999. As of January 30, 1999, the Company had $27 million of standby letters of credit and $42 million of trade letters of credit outstanding under this agreement.

During the 52 weeks ended January 30, 1999, the Company repaid borrowings totaling $1,229 million. The major components of debt repaid included $340 million of its 10% Senior Notes due 2001, the remaining $176 million of borrowings under a note monetization facility, $294 million of short-term debt refinanced at the end of 1997 and $375 million of receivables backed financings. Also, during the 52 weeks ended January 30, 1999, the $350 million aggregate principal amount of the Company's 5.0% Convertible Subordinated Notes due 2003 was converted into 10.2 million shares of common stock.

The following summarizes certain components of the Company's debt:

Bank Credit Agreements

The Company and certain financial institutions are parties to (i) the Five-Year Credit Agreement, pursuant to which such financial institutions have provided the Company with a $1,500 million revolving loan facility (the "Five Year Facility") and (ii) the 364 Day Credit Agreement, pursuant to which such financial institutions have provided the Company with a $500 million revolving loan facility (the "364-Day Facility" and, together with the Five-Year Facility, the "Revolving Loan Facilities"). The Company's obligations under the Revolving Loan Facilities are not secured or guaranteed.

As of January 30, 1999, there were no revolving credit loans outstanding under the Revolving Loan Facilities. However, there were $69 million of letters of credit outstanding under the Revolving Loan Facilities at January 30, 1999. As of January 31, 1998, there were $150 million of revolving credit loans outstanding under the Revolving Loan Facilities which, as a result of a refinancing, was classified as long term debt. Additionally, there were $112 million of letters of credit outstanding under the Revolving Loan Facilities at January 31, 1998. Revolving loans under the Revolving Loan Facilities bear interest based on published rates. As of January 31, 1998, the average rate per annum was 5.78%.

Commercial Paper

On January 30, 1997, the Company established a $400 million program (subsequently increased to $2,000 million) for the issuance from time to time of unsecured commercial paper. The issuance of commercial paper under the program will have the effect, while such commercial paper is outstanding, of reducing the Company's borrowing capacity under the Revolving Loan Facilities by an amount equal to the principal amount of such commercial paper. As of January 30, 1999, there was no such commercial paper outstanding. As of January 31, 1998, there was $144 million of such commercial paper outstanding which, as a result of a refinancing, was classified as long-term debt.

Receivables Backed Financings

Receivables backed financings classified as short-term debt consist of the current portion of amounts due under certain receivables backed certificates issued by a subsidiary of the Company together with receivables backed commercial paper issued by a subsidiary of the Company (of which none and $375 million were outstanding as of January 30, 1999 and January 31, 1998, respectively). Receivables backed financings classified as long-term debt consist of receivables backed certificates issued by a subsidiary of the Company, which certificates represent undivided interests in a master trust originated by such subsidiary, bear interest at rates ranging from 6.70% to 6.90% per annum and mature between May 1, 2001 and September 15, 2002.

Senior Notes and Debentures

The Senior Notes and the Senior Debentures are unsecured obligations of the Company. The holders of the Senior Debentures due 2027 may elect to have such debentures repaid on July 15, 2004 at 100% of the principal amount thereof, together with accrued and unpaid interest to the date of repayment.

TERMS

The TERMS are unsecured obligations of the Company. The final maturity is scheduled to occur on September 1, 2011 ("Final Maturity"), but may be adjusted during the remarketing process. The TERMS will bear interest at the rate of 6⅛% per annum to September 1, 2001 ("Investor Maturity Date"). The interest rate to Final Maturity will be determined during the remarketing process and will be equal to the sum of 5.64% per annum plus the Company's then current credit spread for similar debt instruments. At the Investor Maturity Date, the remarketing dealer may purchase the TERMS from the investors, at face value, and remarket the securities to new investors or the remarketing dealer may give notice to the Company that such securities shall be tendered to the Company and retired.

Other Financing Arrangement

In addition to the financing arrangements discussed above, on January 22, 1997, the Company entered into an arrangement providing for off balance sheet financing of up to $200 million (subsequently increased to $375 million) of non-proprietary credit card receivables arising under accounts owned by the Company. At January 30, 1999 and January 31, 1998, $340 million and $243 million, respectively, of borrowings were outstanding under this arrangement.

8. Accounts Payable and Accrued Liabilities

	January 30, 1999	January 31, 1998
	(millions)	
Merchandise and expense accounts payable	$1,630	$1,587
Liabilities to customers	220	173
Taxes other than income taxes	116	116
Accrued wages and vacation	91	86
Accrued interest	45	51
Other	344	403
	$2,446	$2,416

9. Taxes

Income tax expense is as follows:

	52 Weeks Ended January 30, 1999			52 Weeks Ended January 31, 1998			52 Weeks Ended February 1, 1997		
	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total
					(millions)				
Federal	$405	$(19)	$386	$319	$ (1)	$318	$176	$(31)	$145
State and local	96	(4)	92	66	(1)	65	36	(6)	30
	$501	$(23)	$478	$385	$ (2)	$383	$212	$(37)	$175

The income tax expense reported differs from the expected tax computed by applying the federal income tax statutory rate of 35% for the 52 weeks ended January 30, 1999, January 31, 1998 and February 1, 1997, to income before income taxes and extraordinary items. The reasons for this difference and their tax effects are as follows:

	52 Weeks Ended January 30, 1999	52 Weeks Ended January 31, 1998	52 Weeks Ended February 1, 1997
		(millions)	
Expected tax	$407	$335	$154
State and local income taxes, net of federal income tax expense	60	43	20
Permanent difference arising from amortization of intangible assets	9	9	9
Other	2	(4)	(8)
	$478	$383	$175

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

	January 30, 1999	January 31, 1998
	(millions)	
Deferred tax assets:		
Operating loss carryforwards	$ 115	$ 174
Accrued liabilities accounted for on a cash basis for tax purposes	172	175
Postretirement benefits other than pensions	165	171
Allowance for doubtful accounts	30	40
Capitalized lease debt	29	31
Alternative minimum tax credit carryforwards	16	53
Other	133	132
Total gross deferred tax assets	660	776
Deferred tax liabilities:		
Excess of book basis over tax basis of property and equipment	(1,355)	(1,345)
Merchandise inventories	(125)	(122)
Prepaid pension expense	(64)	(68)
Other	(96)	(122)
Total gross deferred tax liabilities	(1,640)	(1,657)
Net deferred tax liability	$ (980)	$ (881)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities and tax-planning strategies in making this assessment. Tax law limits the use of an acquired enterprise's net operating loss carryforwards ("NOLs") to subsequent taxable income of the acquired enterprise in a consolidated tax return for the combined enterprise. As of January 30, 1999, the Company estimated that NOLs, which are available to offset future taxable income of acquired enterprises through 2009, were approximately $324 million. During the year ended January 30, 1999, the Company recorded an additional $32 million of tax benefits related to an acquired enterprise's NOLs and reduced the excess of cost over net assets acquired accordingly. As of January 30, 1999, the Company also had alternative minimum tax credit carryforwards of $16 million, which are available to reduce future income taxes, if any, over an indefinite period.

10. Retirement Plans

The Company has a defined benefit plan ("Pension Plan") and a defined contribution plan ("Savings Plan") which cover substantially all employees who work 1,000 hours or more in a year. In addition, the Company has a defined benefit supplementary retirement plan which includes benefits, for certain employees, in excess of qualified plan limitations. For the 52 weeks ended January 30, 1999, January 31, 1998 and

February 1, 1997, net retirement expense for these plans totaled $30 million, $35 million and $29 million, respectively.

Measurements of plan assets and obligations for the Pension Plan and the defined benefit supplementary retirement plan are calculated as of December 31 of each year. The discount rates used to determine the actuarial present value of projected benefit obligations under such plans were 6.75% as of December 31, 1998 and 7.25% as of December 31, 1997. The assumed weighted average rate of increase in future compensation levels under such plans was 5.0% as of December 31, 1998 and December 31, 1997. The long-term rate of return on assets (Pension Plan only) was 9.75% as of December 31, 1998 and December 31, 1997.

Pension Plan

The following provides a reconciliation of benefit obligations, plan assets and funded status of the Pension Plan as of December 31, 1998 and 1997:

	1998	1997
	(millions)	
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	$1,403	$1,281
Service cost	29	30
Interest cost	97	99
Actuarial loss	58	119
Benefits paid	(127)	(126)
Projected benefit obligation, end of year	$1,460	$1,403
Changes in plan assets (primarily stocks, bonds and U.S. government securities)		
Fair value of plan assets, beginning of year	$1,590	$1,469
Actual return on plan assets	201	247
Benefits paid	(127)	(126)
Fair value of plan assets, end of year	$1,664	$1,590
Funded status	$ 204	$ 187
Unrecognized net gain	(28)	(21)
Unrecognized prior service cost	3	3
Prepaid pension expense	$ 179	$ 169

Net pension costs for the Company's Pension Plan included the following actuarially determined components:

	52 Weeks Ended January 30, 1999	52 Weeks Ended January 31, 1998	52 Weeks Ended February 1, 1997
		(millions)	
Service cost	$ 29	$ 30	$ 36
Interest cost	97	99	94
Expected return on assets	(137)	(132)	(126)
Amortization of prior service cost	1	–	–
Recognition of net actuarial loss	–	–	7
Cost of special termination benefits	–	9	–
Net pension expense (credit)	$ (10)	$ 6	$ 11

In connection with a program to modify certain health care benefits for future retirees at one division, during the 52 weeks ended January 31, 1998, the Company incurred $9 million of special termination benefits to eligible employees who elected to retire within a specified time period.

As permitted under SFAS No. 87, "Employers' Accounting for Pensions," the amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the Pension Plan.

The Company's policy is to fund the Pension Plan at or above the minimum required by law. For the 1998 and 1997 plan years, the Pension Plan was considered to be fully funded and no funding contributions were required or made. Plan assets are held by independent trustees.

Supplementary Retirement Plan

The following provides a reconciliation of benefit obligations, plan assets and funded status of the supplementary retirement plan as of December 31, 1998 and 1997:

	1998	1997
	(millions)	
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	$ 94	$ 75
Service cost	4	2
Interest cost	8	5
Plan amendments	–	3
Actuarial loss	36	16
Benefits paid	(10)	(7)
Projected benefit obligation, end of year	$ 132	$ 94
Change in plan assets		
Fair value of plan assets, beginning of year	$ –	$ –
Company contributions	10	7
Benefits paid	(10)	(7)
Fair value of plan assets, end of year	$ –	$ –
Funded status	$(132)	$ (94)
Unrecognized net loss	49	9
Unrecognized prior service cost	6	7
Accrued benefit cost	$ (77)	$ (78)
Amounts recognized in the statement of financial position		
Accrued benefit cost	(99)	(89)
Intangible asset	5	7
Accumulated other comprehensive income	17	4
Net amount recognized	$ (77)	$ (78)

The accumulated benefit obligation for the supplementary retirement plan was $99 million and $89 million as of December 31, 1998 and December 31, 1997, respectively.

Net pension costs for the supplementary retirement plan included the following actuarially determined components:

	52 Weeks Ended January 30, 1999	52 Weeks Ended January 31, 1998	52 Weeks Ended February 1, 1997
		(millions)	
Service cost	$ 4	$ 2	$ 2
Interest cost	8	5	5
Amortization of prior service cost	1	2	1
Recognition of net actuarial loss	3	–	–
Net pension expense	$16	$ 9	$ 8

As permitted under SFAS No. 87, "Employers' Accounting for Pensions," the amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the Plan.

Savings Plan

The Savings Plan includes a voluntary savings feature for eligible employees. The Company's contribution is based on the Company's annual earnings and the minimum contribution is 33⅓% of an employee's eligible savings. Expense for the Savings Plan amounted to $24 million for the 52 weeks ended January 30, 1999, $20 million for the 52 weeks ended January 31, 1998 and $10 million for the 52 weeks ended February 1, 1997.

Deferred Compensation Plan

The Company has a deferred compensation plan wherein eligible executives may elect to defer a portion of their compensation each year as either stock credits or cash credits. The Company transfers shares to a trust to cover the number it estimates will be needed for distribution on account of stock credits currently outstanding. At January 30, 1999, January 31, 1998, and February 1, 1997, the liability under the plan, which is reflected in other liabilities, was $21 million, $17 million, and $12 million, respectively. Expense for the 52 weeks ended January 30, 1999, 52 weeks ended January 31, 1998, and 52 weeks ended February 1, 1997, was immaterial.

11. Postretirement Health Care and Life Insurance Benefits

In addition to pension and other supplemental benefits, certain retired employees currently are provided with specified health care and life insurance benefits. Eligibility requirements for such benefits vary by division and subsidiary, but generally state that benefits are available to eligible employees who retire after a certain age with specified years of service. Certain employees are subject to having such benefits modified or terminated.

The following provides a reconciliation of benefit obligations, plan assets, and funded status of the postretirement obligations as of December 31, 1998 and 1997:

	1998	1997
	(millions)	
Change in accumulated postretirement benefit obligation		
Accumulated postretirement benefit obligation, beginning of year	$ 325	$ 364
Service cost	2	2
Interest cost	22	23
Plan amendments	(2)	(23)
Actuarial (gain) loss	12	(16)
Curtailment loss	–	1
Loss due to special termination benefits	–	1
Benefits paid	(27)	(27)
Accumulated postretirement benefit obligation, end of year	$ 332	$ 325
Change in plan assets		
Fair value of plan assets, beginning of year	$ –	$ –
Company contributions	27	27
Benefits paid	(27)	(27)
Fair value of plan assets, end of year	$ –	$ –
Funded status	$(332)	$(325)
Unrecognized net gain	(50)	(73)
Unrecognized prior service cost	(30)	(31)
Accrued benefit cost	$(412)	$(429)

Net postretirement benefit expense included the following actuarially determined components:

	52 Weeks Ended January 30, 1999	52 Weeks Ended January 31, 1998	52 Weeks Ended February 1, 1997
		(millions)	
Service cost	$ 2	$ 2	$ 5
Interest cost	23	23	27
Amortization of prior service cost	(5)	(4)	(2)
Recognition of net actuarial gain	(9)	(11)	(4)
Reduction for special termination benefits	–	(3)	–
Net postretirement benefit expense	$ 11	$ 7	$ 26

The discount rate used in determining the actuarial present value of unfunded postretirement benefit obligations was 6.75% as of December 31, 1998 and 7.25% as of December 31, 1997.

The future medical benefits provided by the Company for certain employees are based on a fixed amount per year of service, and the accumulated postretirement benefit obligation is not affected by increases in health care costs. However, the future medical benefits provided by the Company for certain other employees are affected by increases in health care costs. For purposes of determining the present values of unfunded postretirement benefit obligations, the annual growth rate in the per capita cost of various components of such medical benefit obligations was assumed to range from 7.5% to 9.5% in the first year, and to decrease gradually for each such component to range from 4.5% to 5.5% by 2003 and to remain at those levels thereafter. The foregoing growth-rate assumption has a significant effect on such determination. To illustrate, increasing such assumed growth rates by one percentage point would increase the present value of unfunded postretirement benefit obligation as of December 31, 1998 by $14 million and the net periodic postretirement benefit expense for 1998 by $1 million. Alternatively, decreasing such assumed growth rates by one percentage point would decrease the present value of unfunded postretirement benefit obligations as of December 31, 1998 by $13 million and the net periodic postretirement benefit expense for 1998 by $1 million.

As permitted under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," the amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the Plan.

12. Equity Plan

The Company has adopted an equity plan intended to provide an equity interest in the Company to key management personnel and thereby provide additional incentives for such persons to devote themselves to the maximum extent practicable to the businesses of the Company and its subsidiaries. The equity plan is administered by the Compensation Committee of the Board of Directors (the "Compensation Committee"). The Compensation Committee is authorized to grant options, stock appreciation rights and restricted stock to officers and key employees of the Company and its subsidiaries. The equity plan also provides for the award of options to non-employee directors.

Stock option transactions are as follows:

	52 Weeks Ended January 30, 1999		52 Weeks Ended January 31, 1998		52 Weeks Ended February 1, 1997	
	Shares	Weighted Average Option Price	Shares	Weighted Average Option Price	Shares	Weighted Average Option Price
	(shares in thousands)					
Outstanding, beginning of year	10,825.3	$28.78	9,140.2	$24.65	7,415.7	$20.48
Granted	4,592.2	52.49	4,133.7	34.49	3,057.8	33.14
Canceled	(677.5)	35.54	(630.0)	29.51	(403.9)	23.95
Exercised	(1,079.2)	24.96	(1,818.6)	20.80	(929.4)	19.60
Outstanding, end of year	13,660.8	$36.72	10,825.3	$28.78	9,140.2	$24.65
Exercisable, end of year	4,590.8	$25.34	3,315.0	$22.56	3,136.8	$20.33
Weighted average fair value of options granted during the year		$20.67		$14.26		$13.04

The following summarizes information about stock options, which remain outstanding as of January 30, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
	(thousands)			(thousands)	
$11.63 - 25.00	3,418.8	5.4 years	$20.87	2,946.2	$20.60
25.01 - 40.00	5,811.6	7.8 years	33.96	1,629.7	33.72
40.01 - 79.44	4,430.4	9.2 years	52.57	14.9	46.02

As of January 30, 1999, 6.9 million shares of Common Stock were available for additional grants pursuant to the Company's equity plan, of which 1.2 million shares were available for grant in the form of restricted stock. No shares of Common Stock were granted in the form of restricted stock during the 52 weeks ended January 30, 1999 or February 1, 1997. During the 52 weeks ended January 31, 1998, 30,000 shares of Common Stock were granted in the form of restricted stock at a market value of $34.38 and fully vest after 3 years. Compensation expense is recorded for all restricted stock grants based on the amortization of the fair market value at the time of grant of the restricted stock over the period the restrictions lapse. There have been no grants of stock appreciation rights under the equity plan.

The Company applies Accounting Principles Board Opinion No. 25 and related Interpretations in accounting for compensation cost under its equity plan. Had compensation cost for the Company's equity plan been determined consistent with Statement of Financial Accounting Standards No. 123 for options

granted subsequent to January 28, 1995, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

		52 Weeks Ended January 30, 1999	52 Weeks Ended January 31, 1998	52 Weeks Ended February 1, 1997
		(millions, except per share data)		
Net income	As Reported	$ 662	$ 536	$ 266
	Pro forma	637	521	258
Basic earnings per share	As Reported	3.16	2.56	1.28
	Pro forma	3.04	2.49	1.24
Diluted earnings per share	As Reported	2.96	2.41	1.24
	Pro forma	2.85	2.34	1.21

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used:

	52 Weeks Ended January 30, 1999	52 Weeks Ended January 31, 1998	52 Weeks Ended February 1, 1997
Dividend yield	–	–	–
Expected volatility	30.6%	29.7%	25.2%
Risk-free interest rate	5.7%	6.8%	6.1%
Expected life	6 years	6 years	6 years

13. Shareholders' Equity

The authorized shares of the Company consist of 125.0 million shares of preferred stock ("Preferred Stock"), par value of $.01 per share, with no shares issued, and 500.0 million shares of Common Stock, par value of $.01 per share, with 242.2 million shares of Common Stock issued and 208.5 million shares of Common Stock outstanding at January 30, 1999 and 239.9 million shares of Common Stock issued and 209.9 million shares of Common Stock outstanding at January 31, 1998 (with shares held in the Company's treasury or by subsidiaries of the Company being treated as issued, but not outstanding).

During 1998, the Board of Directors approved a stock repurchase program that authorizes the Company to purchase up to $1 billion of its common stock through January 29, 2000. Through January 30, 1999, 12.8 million shares of common stock at an aggregate cost of $591 million had been acquired under the repurchase program.

Common Stock

The holders of the Common Stock are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders. Subject to preferential rights that may be applicable to any Preferred Stock, holders of Common Stock are entitled to receive ratably such dividends as may be declared by the Board of Directors out of funds legally available therefor. However, it is not presently anticipated that dividends will be paid on Common Stock in the foreseeable future.

Preferred Share Purchase Rights

Each share of Common Stock is accompanied by one right (a "Right") issued pursuant to the Share Purchase Rights Agreement between the Company and The Bank of New York, as Rights Agent. Each Right entitles the registered holder thereof to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock, par value $.01 per share (the "Series A Preferred Shares"), of the Company at a price (the "Purchase Price") of $62.50 per one one-hundredth of a Series A Preferred Share (subject to adjustment).

In general, the Rights will not become exercisable or transferable apart from the shares of Common Stock with which they were issued unless a person or group of affiliated or associated persons becomes the beneficial owner of, or commences a tender offer that would result in beneficial ownership of, 20% or more of the outstanding shares of Common Stock (any such person or group of persons being referred to as an "Acquiring Person"). Thereafter, under certain circumstances, each Right (other than any Rights that are or were beneficially owned by an Acquiring Person, which Rights will be void) could become exercisable to purchase at the Purchase Price a number of shares of Common Stock having a market value equal to two times the Purchase Price. The Rights will expire on February 4, 2002, unless earlier redeemed by the Company at a redemption price of $.03 per Right (subject to adjustment).

Future Stock Issuances

The Company is authorized to issue 1.0 million shares of Common Stock (subject to adjustment) upon the exercise of the Company's Series B Warrants, 9.0 million shares of Common Stock (subject to adjustment) upon the exercise of the Company's Series C Warrants, 9.0 million shares of Common Stock (subject to adjustment) upon the exercise of the Company's Series D Warrants and 0.2 million shares of Common Stock (subject to adjustment) upon the exercise of the Company's Series E Warrants. The warrants have the following terms:

	Shares per Warrant	Exercise Price	Expiration Date
Series B	1.047	$35.00	2/15/00
Series C	1.000	25.93	12/19/99
Series D	1.000	29.92	12/19/01
Series E	0.270	17.00	10/08/99

Treasury Stock

Treasury stock contains shares repurchased under the stock repurchase program, shares issued to wholly owned subsidiaries of the Company in connection with an acquisition, shares maintained in a trust related to the deferred compensation plans and shares repurchased to cover employee tax liabilities related to other stock plan activity.

Changes in the number of shares held in the treasury are as follows:

	52 Weeks Ended January 30, 1999	52 Weeks Ended January 31, 1998	52 Weeks Ended February 1, 1997
		(thousands)	
Balance, beginning of year	159.3	84.8	40.8
Additions:			
Repurchase program	12,810.1	–	–
Restricted stock	51.6	70.0	41.9
Deferred compensation plan	4.1	4.5	2.1
Distributions:			
Issued in conversion of subordinated notes	(9,205.7)	–	–
Balance, end of year	3,819.4	159.3	84.8

Additions to treasury stock for restricted stock and the deferred compensation plan represent shares accepted in lieu of cash to cover employee tax liability upon lapse of restrictions for restricted stock and upon distribution of common stock under the deferred compensation plans.

Under the deferred compensation plans, shares are maintained in a trust to cover the number estimated to be needed for distribution on account of stock credits currently outstanding. Changes in the number of shares held in the trust are as follows:

	52 Weeks Ended January 30, 1999	52 Weeks Ended January 31, 1998	52 Weeks Ended February 1, 1997
		(thousands)	
Balance, beginning of year	378.7	283.5	213.9
Additions	80.0	123.7	90.6
Distributions	(24.2)	(28.5)	(21.0)
Balance, end of year	434.5	378.7	283.5

14. Financial Instruments and Concentrations of Credit Risk

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and short-term investments

The carrying amount approximates fair value because of the short maturity of these instruments.

Accounts receivable

The carrying amount approximates fair value because of the short average maturity of the instruments, and because the carrying amount reflects a reasonable estimate of losses from doubtful accounts.

Long-term debt

The fair values of the Company's long-term debt, excluding capitalized leases, are estimated based on the quoted market prices for publicly traded debt or by using discounted cash flow analysis, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Interest rate cap agreements

The fair values of the interest rate cap agreements are estimated based on current settlement prices of comparable contracts obtained from dealer quotes.

Interest rate swap agreements

The fair values of the interest rate swap agreements are obtained from dealer quotes. The values represent the estimated amount the Company would pay or receive to terminate the agreements at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

The estimated fair values of certain financial instruments of the Company are as follows:

	January 30, 1999			January 31, 1998		
	Notional Amount	Carrying Amount	Fair Value	Notional Amount	Carrying Amount	Fair Value
			(millions)			
Long-term debt	$2,997	$2,996	$3,207	$3,854	$3,853	$4,179
Interest rate cap agreements	789	–	–	827	–	–
Interest rate swap agreements	–	–	–	376	–	(2)

The interest rate cap agreements in effect at January 30, 1999 and January 31, 1998 are used to hedge interest rate risk related to variable rate indebtedness under the Company's Receivables Backed Financings. These interest rate cap agreements are recorded at cost and are amortized on a straight-line basis over the life of the cap.

The interest rate swap agreements in effect at January 31, 1998 were used, in effect, to fix the interest on a portion of the debt outstanding under the Note Monetization and the Revolving Loan Facilities.

Commitments to extend credit under revolving agreements relate primarily to the aggregate unused credit limits and unused lines of credit for the Company's credit plans. These commitments generally can be terminated at the option of the Company. It is unlikely that the total commitment amount will represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and trade receivables. The Company places its temporary cash investments in what it believes to be high credit quality financial instruments. Credit risk with respect to trade receivables is concentrated in the geographic regions in which the Company operates stores. Such concentrations, however, are considered to be limited because of the Company's large number of customers and their dispersion across many regions.

15. Earnings Per Share

The reconciliation of basic earnings per share to diluted earnings per share based on income before extraordinary items is as follows:

	52 Weeks Ended January 30, 1999		52 Weeks Ended January 31, 1998		52 Weeks Ended February 1, 1997	
	Shares	Income	Shares	Income	Shares	Income
	(millions, except per share data)					
Income before extraordinary items and average number of shares outstanding	209.1	$685	209.2	$575	207.5	$266
Shares to be issued under deferred compensation plans	.4		.3		.2	
Shares to be issued to IRS					.1	
	209.5	$685	209.5	$575	207.8	$266
Basic earnings per share		$3.27		$2.74		$1.28
Effect of dilutive securities:						
Warrants	7.4		5.4		2.8	
Stock options	2.2		2.0		1.6	
Convertible notes	6.8	7	10.2	10	10.2	11
	225.9	$692	227.1	$585	222.4	$277
Diluted earnings per share		$3.06		$2.58		$1.24

In addition to the warrants and stock options reflected in the foregoing table, warrants and stock options to purchase 4.7 million, 0.2 million and 3.7 million shares of common stock at prices ranging from $33.13 to $79.44 per share were outstanding at January 30, 1999, January 31, 1998 and February 1, 1997, respectively, but were not included in the computation of diluted earnings per share because the exercise price thereof exceeded the average market price and would have been antidilutive.

16. Quarterly Results (unaudited)

Unaudited quarterly results for the 52 weeks ended January 30, 1999 and January 31, 1998, were as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(millions, except per share data)			
52 Weeks Ended January 30, 1999:				
Net sales	$3,456	$3,523	$3,647	$5,207
Operating income	181	267	257	750
Income before extraordinary item	60	107	110	408
Net income	60	107	87	408
Basic earnings per share:				
Income before extraordinary item	.29	.51	.53	1.95
Net income	.29	.51	.42	1.95
Diluted earnings per share:				
Income before extraordinary item	.27	.47	.50	1.88
Net income	.27	.47	.40	1.88
52 Weeks Ended January 31, 1998:				
Net sales	$3,409	$3,453	$3,746	$5,060
Operating income	148	212	268	713
Income before extraordinary item	24	67	105	379
Net income	24	28	105	379
Basic earnings per share:				
Income before extraordinary item	.12	.32	.50	1.80
Net income	.12	.13	.50	1.80
Diluted earnings per share:				
Income before extraordinary item	.11	.31	.47	1.66
Net income	.11	.13	.47	1.66

17. Subsequent Event (unaudited)

On March 18, 1999, the Company acquired Fingerhut Companies, Inc. ("Fingerhut") for a purchase price of $1,700 million, including $297 million of Fingerhut indebtedness. Fingerhut is a database marketing company that sells a broad range of products and services directly to consumers via catalogs, direct marketing and the Internet, with 1998 annual sales in excess of $1,500 million. The Company funded the Fingerhut acquisition through a combination of cash on hand and short-term borrowings. On March 24, 1999, the Company issued $350 million of 6.3% Senior Notes due 2009 and $400 million of 6.9% Senior Debentures due 2029 and used the proceeds thereof to repay a portion of such short-term borrowings. The Fingerhut acquisition will be accounted for as a purchase.

QUARTERLY TRADING VOLUME & SHARE PRICE DATA ARE AS FOLLOWS:

1998	Shares Traded	Average Daily Volume	Prices Low	Prices High
First Quarter	57,181,300	907,640	42 3/4	53
Second Quarter	52,654,900	835,792	49 13/16	56 3/16
Third Quarter	102,911,600	1,607,994	32 13/16	53 5/16
Fourth Quarter	82,511,500	1,352,648	35 15/16	46 3/8

1997	Shares Traded	Average Daily Volume	Prices Low	Prices High
First Quarter	77,160,800	1,224,775	31 5/8	38 1/4
Second Quarter	85,795,000	1,361,825	34 5/8	44 1/8
Third Quarter	60,580,400	946,569	39 5/16	45 7/16
Fourth Quarter	61,048,400	1,000,793	39 11/16	48 7/8

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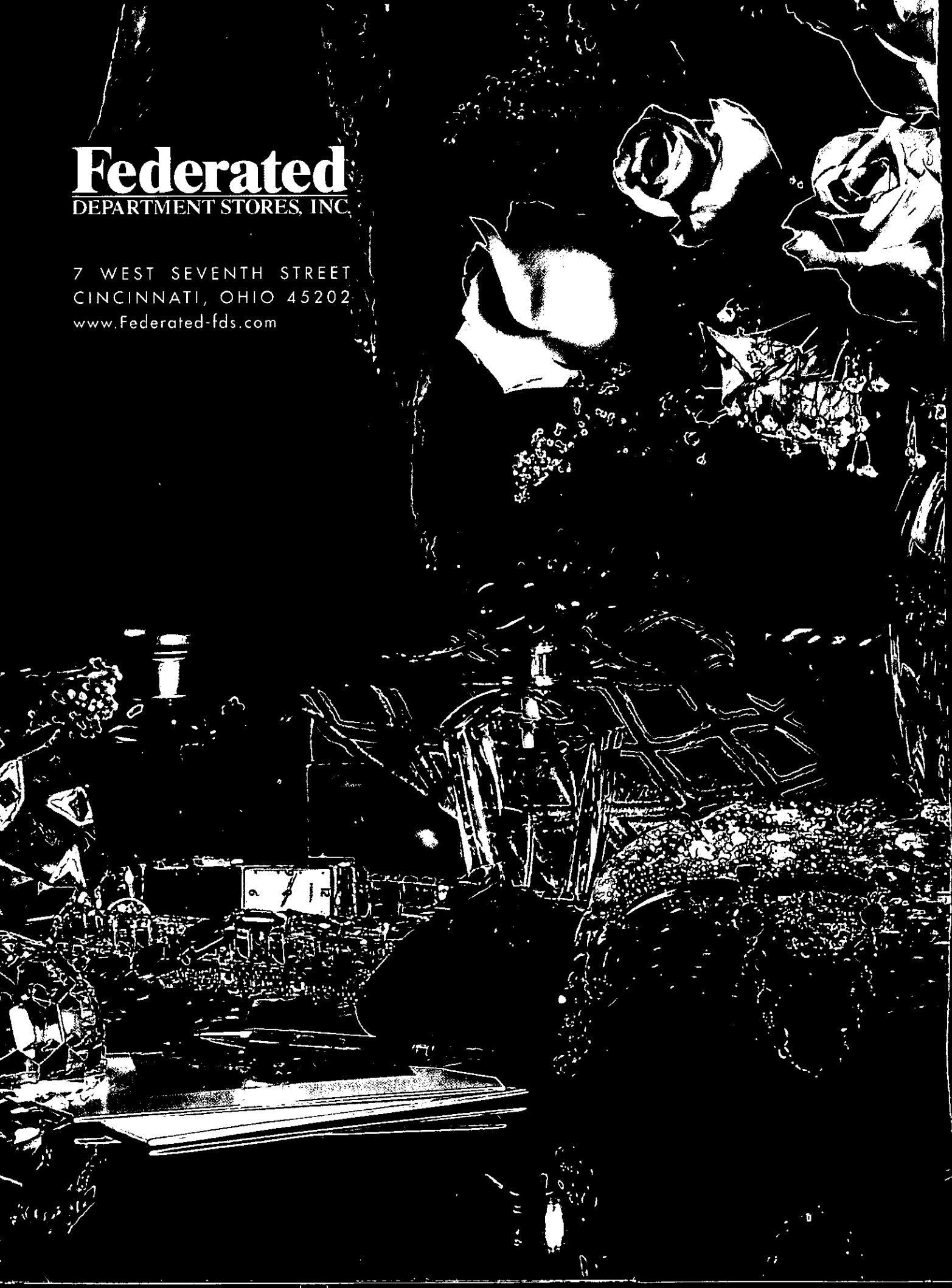
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